

THE INTERIM PROPERTY TAX REAPPRAISAL STUDY COMMITTEE FINAL REPORT

**Prepared for the Property Tax Reappraisal Committee
Created by HB461, 2003 Legislative Session**

December 2004



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Interim Property Tax Reappraisal Study Committee Report

During the 58th Legislative Session, the Montana Legislature enacted Senate Bill 461, an act establishing an Interim Property Tax Reappraisal Study Committee.

The purpose of the Property Tax Reappraisal Study Committee was to study the effects of cyclical reappraisal and methods for mitigating the changes in taxable value caused by cyclical reappraisal.

The Property Tax Reappraisal Study was to solicit the knowledge and advice of economists, tax policy experts, and representatives of taxpayer groups, local governments, small business organizations, large industry, agriculture, and economic and business development organizations.

The Property Tax Reappraisal Study is required to submit a written report to the Montana Legislature not later than December 1, 2004. The report must include recommendations and proposed legislation, if legislation is considered necessary, to mitigate the effects of cyclical reappraisal.

SB461 also created the Interim Tax Reform Study Committee, which was charged with studying tax reform that may include revising the existing tax structure and considering alternative forms of taxation. The Property Tax Reappraisal Study Committee was required to coordinate their work with the Tax Reform Study Committee and report to each other after each meeting. The two committees were also required to meet in joint sessions at least once every six months. They met in joint sessions on January 12, 2004 and on May 7, 2004.

The Property Tax Reappraisal Study Committee was composed of four senators, two from each political party, appointed by the committee on committees, and four representatives, two appointed by the speaker and two appointed by the minority leader.

Committee members are listed in Addendum A and Interested Parties in Addendum B.

The Property Tax Reappraisal Study Committee held seven public meetings: September 5, 2003; November 21, 2003; January 12-13, 2004; March 4, 2004; May 7, 2004; July 15, 2004 and September 8, 2004, plus two joint meetings with the Tax Reform Study Committee on January 12, 2004 and May 7, 2004. Minutes of all committee meetings can be found at:

www.discoveringmontana.com/revenue/legislativeinformation/ptreappraisal.asp

Property tax and the appraisal and assessment of real and personal property is very complex. The committee spent considerable time examining, understanding and evaluating property taxes and the property tax system in Montana. They reviewed property tax systems in other states as well. The committee focused on Class 4 property in its discussions. Class 4 property is cyclically reappraised every six years. Class 4 property contains residential and commercial land and improvements. The following report recaps the information and issues reviewed by the committee as well as final determinations and conclusions that were made.

For copies of any background documents or other information, e-mail Dolores Cooney, Department of Revenue, at dcooney@state.mt.us.

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Section 1

- Montana's Current Property Tax Structure
- History of Reappraisal
- Appraisal Process, Assessment Process and Tax Bill

Montana's Current Property Tax Structure

The Property Tax Reappraisal Study Committee reviewed the current property tax structure in Montana. Property taxes are the end result of a process which begins with the appraised value of a property and ends with a property tax bill.

A presentation was made to the committee that outlined taxes in general and the question of "Where do taxes come from and where do they go." A breakdown and discussion of total state revenue and spending for fiscal year 2003 was reviewed. In that fiscal year, revenues amounted to \$3,167,353,000.

See Addendum C

Property taxes comprise 5% of the total state revenue, but are a much larger portion of local governments' and schools' revenue. There are 101 mills of property taxes levied which make up this 5% figure. These are 95 mills for K-12 education, 6 mills for the University System and an additional 1.5 mills for counties that have a vocational technical center.

Local governments and school districts rely heavily on property tax revenue. Total taxes levied on Montana tax bills in fiscal year 2003 were \$909,893,663.

See Addendum D

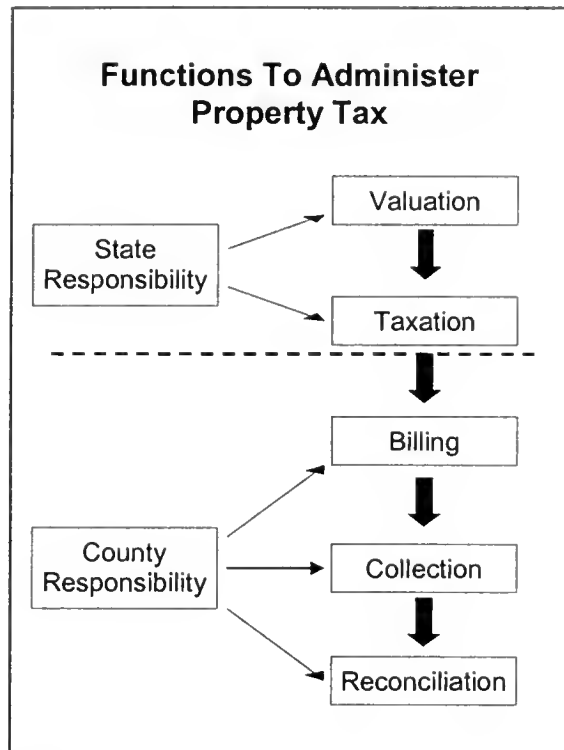
Of that amount, \$83,033,029 was special improvement district charges and other fees. Addendum D of this report contains a statewide picture of taxes collected for fiscal years 2002 and 2003 and where those tax dollars go.

The committee examined the issue of what is the Department of Revenue's role in the property tax process and what is the role of county government. The state became responsible for overseeing the property valuation program under the 1972 Constitution.

In 1972 the state assumed the functions of valuation and taxation of property. At that time, cyclical reappraisal of Class 3 (agriculture land), Class 4 (residential and commercial property), and Class 10 (forest land) was implemented. All other classes of property are appraised annually. Currently, the cyclical reappraisal is set at 6 years.

The valuation and taxation functions are the responsibility of the state. The tax billing, collection and reconciliation functions are a county responsibility.

The various functions required to accomplish property taxation are identified in the following chart.



History of Reappraisal

There are three basic components in the process of establishing property taxes. They are the property appraisal process, the property assessment process and the property tax bill. Within each of these components, there are points where mitigation of reappraisal impacts can be done. Over time, the Montana Legislature has utilized various methods to mitigate reappraisal impacts. Cyclical reappraisal affects property in Class 3 (agriculture land), Class 4 (residential and commercial property), and Class 10 (forest land). Property in these tax classes is reappraised every six years under current law.

See Addendum E

Addendum E of this report recaps each of the seven reappraisal cycles that have occurred since 1972. Cyclical reappraisal becomes a policy issue each reappraisal cycle. This is due to the problem that without intervention by the Montana Legislature, property taxes could increase for most Class 4 residential and commercial property owners and for some Class 3 agricultural property owners. For classes of property which are appraised each year, property values change gradually. In contrast, cyclical reappraisal can result in significant changes in property values in the year the cyclical reappraisal values are implemented. This is due to the time lag in recognizing property value changes in cyclical reappraisal.

Throughout the reappraisal cycles, the Montana Legislature has attempted to mitigate the impact of valuation increase through a combination of tax rate

adjustments, phasing in of reappraisal values over the cycle, and implementation of homestead and comstead exemptions and property tax circuit breakers (such as the Property Tax Assistance Program, Extended Property Tax Assistance Program and tax relief for disabled veterans).

The goal of reappraisal is to ensure that property is valued at current market value. If this is done, then the state is in compliance with Section 3, Article VIII of the State of Montana Constitution, which reads as follows.

“The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.”

When cyclical reappraisal is completed, the state has met the constitutional obligation to equalize the valuation of all property. In theory, for every location in the state, all property is appraised at its market value that is established for the same point in time.

Appraisal Process, Assessment Process and Tax Bill

When discussions take place regarding appraised value of property, there is often a misconception that if the appraised value is held down or not increased, the property tax dollars will not increase. This assumption is not correct. The appraised value is just a starting factor.

An appraisal is an estimate of value. Appraising real and personal property, like the solving of any problem, is an exercise in reasoning. It is a discipline, and like any discipline, it is founded on fundamental economic and social principles. From these principles evolve certain premises which, when applied to the valuation of property, serve to explain the reaction of the market.

Montana's property tax is an ad valorem based system. That is, the property tax amount assessed to a property is based on the market value of the property. For ad valorem tax purposes, for Class 4 (residential and commercial) property, the value sought is market value. The descriptive term "market" indicates the activity of buyers and sellers. Market value is that price which an informed and intelligent buyer, fully aware of the existence of competing properties, and not being compelled to act, would be justified in paying for a particular property.

The appraisal process utilized in producing an estimate of value for ad valorem tax purposes is the same process used by a fee appraiser when estimating the value of a property for mortgage lending purposes. The same three approaches to value – cost approach, sales comparison approach and income approach – are used.

It is imperative that the ad valorem appraisals in Class 4 are equitable and fair. The value of each property must be equitable with other property within the class. In addition, valuations must be generated as economically and efficiently as possible.

Accuracy of reappraisal is paramount in achieving equity and fair property tax. The committee reviewed a sales ratio study which was performed at the end of this last reappraisal. A sales ratio study is the tool by which results of reappraisal values are analyzed for accuracy and equity.

See Addendum F

The result of the analysis was the statewide overall assessment as measured by the median ratio, 99.18. This showed the results of the 2003 reappraisal were very good. The standard for this measure is appraised values should be within 10% of market value. The study showed properties had good uniformity within the appraisal all the way through value ranges.

Once the appraised value is established for property in Class 4 the assessed value for tax purposes or the taxable market value is determined. The taxable market value is the value after the phase-in of the reappraisal increase and the application of the homestead or comstead exemption. The phasing in of reappraisal values was implemented by the 1997 Legislature and modified in the 1999 Legislative Session as a method of mitigating reappraisal impacts. In that legislative session, the homestead and comstead exemptions were implemented as an additional reappraisal mitigation mechanism. With each of these exemptions, a percentage of the market value of a property is exempt from taxation.

After the determination of the taxable market value, the tax rate is applied to a property. All property in the state is categorized by tax class for assessment purposes. Table 1 shows the tax year 2002 market values, tax rates and taxable values for each of the 12 classes of property. All classes of property are reappraised annually, with the exception of Class 3 (agricultural land), Class 4 (residential and commercial) and Class 10 (forest land), which are reappraised once every six years.

Table 1
Tax Year 2002 Valuations by Tax Class

| <u>Tax Class</u> | <u>Description</u> | <u>Tax Rate</u> | <u>2002 Market Value</u> | <u>% of MV</u> | <u>2002 Taxable Value</u> | <u>% of TV</u> |
|------------------|--|-----------------|------------------------------|--------------------|-------------------------------|--------------------|
| 1 | Mine Net Proceeds | 100.00% | 8,691,402 | 0.02% | 8,691,402 | 0.51% |
| 2 | Gross Proceeds Metal Mines | 3.00% | 355,644,076 | 0.82% | 10,669,321 | 0.62% |
| 3 | Agricultural Land | 3.48% | 3,845,087,046 | 6.72% | 138,900,095 | 8.08% |
| 4 | Residential ¹ | 3.46% | 30,906,164,239 | 53.98% | 731,671,491 | 42.57% |
| 4 | Commercial ¹ | 3.46% | 9,110,810,891 | 15.91% | 271,202,451 | 15.78% |
| Sub 4 | Subtotal Class 4 | 3.46% | 40,016,975,130 | 69.89% | 1,002,873,942 | 58.35% |
| 5 | Pollution Control Equipment | 3.00% | 1,180,181,662 | 2.06% | 35,382,198 | 2.06% |
| 6 | Livestock | 1.00% | 616,075,480 | 1.08% | 6,167,237 | 0.38% |
| 7 | Non-Centrally Assessed Public Util. | 8.00% | 2,705,175 | 0.00% | 216,414 | 0.01% |
| 8 | Business Personal Property | 3.00% | 4,012,212,828 | 7.01% | 118,348,928 | 6.89% |
| 9 | Non-Elec. Gen. Prop. of Electric Util. | 12.00% | 1,719,851,111 | 3.00% | 206,360,123 | 12.01% |
| 10 | Forest Land | 0.35% | 2,048,625,084 | 3.58% | 7,170,239 | 0.42% |
| 12 | Railroad and Airline Property | 4.02% | 1,161,404,952 | 2.03% | 46,688,479 | 2.72% |
| 13 | Telecomm. & Electric Property | 6.00% | 2,286,414,106 | 3.99% | 137,184,847 | 7.98% |
| | Totals | 3.00% | 57,253,868,052 | 100.00% | 1,718,653,223 | 100.00% |

¹Market Value is prior to Homestead/Comstead.

The final portion of the basic formula for calculating a tax bill is multiplying the taxable value of a property by the mill levy. A mill is 1/1000 (0.001) of a dollar. For each \$1,000 of taxable value, one mill will generate \$1 (\$1,000 x 0.001) of property tax revenue. For example, if property has a taxable value of \$2,000 and the mill levy is set at 30 mills, the property tax bill would be \$60 (\$2,000 x 0.030).

Mill levies are set by:

- The Montana Legislature sets the state mill levies in law. These are 95 mills for K-12 education, 6 mills for the University System and 1.5 mills for counties that have a vocational technical center.
- County commissioners annually set mill levies for counties and miscellaneous taxing jurisdictions.
- City commissioners set mill levies for cities.
- School boards annually set local school district mill levies.
- Counties, cities and schools have some mill levy limits which, if exceeded, require a vote of the people.

Section 15-10-420, MCA sets limits on county and city mill levies by not allowing the amount of property tax collected (not considering new construction) to increase at one-half the average rate of inflation for the prior three years. School districts have some mill levy limits that are generally considered to be less restrictive than mill levy limits applied to counties and city governments. Generally, mill levy increases presented to Montana voters are passed.

Table 2 shows the taxes levied on the Montana property tax bill for tax year 1993 and tax year 2002. For this ten-year period, the total average mill levy increased 134.40 mills from 346.71 to 481.11 mills. This is an increase of 38.8%.

Table 2
Taxes Levied on the Montana Property Tax Bill, Tax Year 1993 - 2002

| | <u>Tax Year 1993</u> <u>(Fiscal Year 1994)</u> | <u>Tax Year 2002</u> <u>(Fiscal Year 2003)</u> | <u>Avg Mill</u> <u>1993</u> | <u>Avg Mill</u> <u>2002</u> |
|-------------------------------------|---|---|--------------------------------|--------------------------------|
| Valuation | | | | |
| Market Valuation | \$ 30,893,878,847 | \$ 46,488,551,722 | | |
| Taxable Valuation Statewide Total | \$ 1,731,947,504 | \$ 1,718,653,223 | | |
| Taxable Valuation in Cities / Towns | \$ 521,184,288 | \$ 623,137,679 | | |
| State | | | | |
| University | \$ 10,378,589 | \$ 10,334,649 | 6.00 | 6.00 |
| Vo-Tech (General Fund) | 877,842 | 917,916 | | |
| State General Fund | 164,327,660 | 163,631,935 | 95.00 | 95.00 |
| Subtotal | \$ 175,584,091 | \$ 174,884,500 | | |
| County Government | | | | |
| General | \$ 45,659,049 | \$ 46,771,082 | | |
| Road | 15,546,248 | 21,505,215 | | |
| Bridge | 5,885,882 | 7,856,032 | | |
| Poor | 11,977,953 | 2,935,318 | | |
| Bond Interest | 242,328 | 289,132 | | |
| County Fair | 1,974,216 | 2,686,409 | | |
| Library | 2,891,994 | 6,904,349 | | |
| Agri. Extension | 1,665,357 | 2,228,106 | | |
| Planning | 688,926 | 1,277,685 | | |
| Health and Sanitation | 1,876,425 | 4,232,538 | | |
| Hospital | 1,527,760 | 1,212,153 | | |
| Airport | 1,112,968 | 1,302,206 | | |
| Other | 29,980,825 | 83,048,703 | | |
| Subtotal | \$ 121,029,931 | \$ 182,248,928 | 69.88 | 106.04 |
| Local Schools | | | | |
| Elementary | \$ 104,411,841 | \$ 163,427,038 | 60.29 | 95.09 |
| K-12 and High School | 78,646,591 | 136,006,567 | 45.41 | 79.14 |
| Jr. College | 3,155,333 | 3,852,078 | 1.82 | 2.24 |
| Subtotal | \$ 186,213,765 | \$ 303,285,683 | 107.52 | 176.47 |
| Countywide Schools | \$ 49,989,221 | \$ 69,619,683 | 28.86 | 40.51 |
| Cities and Towns | \$ 50,054,495 | \$ 72,722,870 | 96.04 | 116.70 |
| Fire & Misc. Districts | 17,613,695 | 24,098,969 | 10.17 | 14.02 |
| Total Property Tax | \$ 600,485,198 | \$ 826,860,633 | 346.71 | 481.11 |
| SIDs and Fees | 56,132,941 | 83,033,029 | | |
| Grand Total | \$ 656,618,139 | \$ 909,893,662 | | |

38.8%
Increase

Table 3 gives an estimate of the statewide average mill levy change for tax years 1999 to 2002. It is estimated that the average mill levy changed 5.7% from tax year 1999 to tax year 2000; 4.6% from tax year 2000 to tax year 2001; and 6.9% from tax year 2001 to tax year 2002.

Table 3
Estimated Statewide Average Mill Levy Changes
Tax Year 1999 to Tax Year 2002 (Fiscal 2000 to 2003)

| ----- Taxes Levied ----- | | Average Mill Levy | | | | | | |
|--|--|-------------------|---------------|---------------|---------------|-------------|-------------|-------------|
| State | | TY99 | TY00 | TY01 | TY02 | | | |
| University | | 6.00 | 6.00 | 6.00 | 6.00 | | | |
| Vo-Tech (General Fund) | | 0.52 | 0.53 | 0.53 | 0.53 | | | |
| State General Fund | | 95.00 | 95.00 | 95.00 | 95.00 | | | |
| State Assumption of Welfare | | 3.70 | 3.85 | 0.14 | 0.00 | | | |
| Subtotal State | | 105.21 | 105.38 | 101.67 | 101.54 | | | |
| County | | | | | | | | |
| General | | 23.64 | 26.92 | 29.64 | 27.21 | | | |
| Road | | 10.12 | 10.96 | 11.94 | 12.51 | | | |
| Bridge | | 3.59 | 4.01 | 4.09 | 4.57 | | | |
| Poor | | 2.32 | 2.38 | 1.26 | 1.71 | | | |
| Bond Interest | | 0.10 | 0.09 | 0.07 | 0.17 | | | |
| County Fair | | 1.26 | 1.39 | 1.39 | 1.56 | | | |
| Library | | 2.23 | 2.41 | 3.72 | 4.02 | | | |
| Agri. Extension | | 1.10 | 1.18 | 1.20 | 1.30 | | | |
| Planning | | 0.37 | 0.54 | 0.62 | 0.74 | | | |
| Health and Sanitation | | 1.96 | 2.34 | 2.43 | 2.46 | | | |
| Hospital | | 0.78 | 0.84 | 0.68 | 0.71 | | | |
| Airport | | 0.58 | 0.62 | 0.62 | 0.76 | | | |
| District Court | | 4.83 | 5.17 | 5.09 | 4.47 | | | |
| Weed Control | | 1.29 | 1.72 | 1.66 | 1.72 | | | |
| Senior Citizens | | 0.68 | 0.76 | 0.77 | 0.84 | | | |
| Other | | 24.61 | 27.99 | 34.72 | 41.29 | | | |
| Subtotal County | | 79.47 | 89.34 | 99.90 | 106.04 | 12.4% | 11.8% | 6.1% |
| Local Schools | | | | | | | | |
| Elementary | | 77.28 | 79.83 | 86.96 | 95.09 | 3.3% | 8.9% | 9.4% |
| K-12 and High School | | 64.47 | 65.59 | 71.75 | 79.14 | 1.7% | 9.4% | 10.3% |
| Jr. College | | 1.79 | 2.18 | 2.18 | 2.24 | 21.3% | 0.1% | 2.9% |
| Subtotal Local Schools | | 143.54 | 147.60 | 160.89 | 176.47 | 2.8% | 9.0% | 9.7% |
| Countywide Schools | | 32.32 | 35.95 | 34.84 | 40.51 | 11.2% | -3.1% | 16.3% |
| Cities and Towns | | 90.28 | 106.42 | 108.24 | 116.70 | 17.9% | 1.7% | 7.8% |
| Fire and Misc. Districts | | 11.99 | 13.52 | 13.55 | 14.02 | 12.8% | 0.2% | 3.5% |
| Total Property Tax | | 407.21 | 430.40 | 450.11 | 481.11 | 5.7% | 4.6% | 6.9% |
| SIDs and Fees | | | | | | 0.8% | 12.5% | 3.0% |
| Total Property Taxes, SIDs and Fees | | | | | | -6.0% | 6.3% | 7.7% |

Table 4 shows the total mill levy for tax year 2002 for each county. The total mill levy represents the total of all mills levied for state, county and school purposes. The total does not include mills levied by cities or towns. The mill levies range from a high of 660.10 for Deer Lodge County to a low of 211.52 for Rosebud County.

Table 4
TY 2002 State, Counties, and Average Schools Mill Levies

| County | University System | State General Fund | County * | Misc. & Fire | Countywide Trans & Ret | School Districts** | Total |
|-----------------|-------------------|--------------------|----------|--------------|------------------------|--------------------|--------|
| Beaverhead | 6.00 | 95.00 | 108.87 | 8.03 | 53.77 | 207.53 | 479.20 |
| Big Horn | 6.00 | 95.00 | 64.00 | 4.78 | 43.62 | 137.46 | 350.86 |
| Blaine | 6.00 | 95.00 | 150.18 | 4.53 | 46.29 | 94.27 | 396.27 |
| Broadwater | 6.00 | 95.00 | 104.02 | 14.69 | 14.51 | 124.27 | 358.49 |
| Carbon | 6.00 | 95.00 | 87.57 | 10.09 | 37.82 | 158.28 | 394.76 |
| Carter | 6.00 | 95.00 | 122.21 | 0.44 | 18.87 | 70.59 | 313.11 |
| Cascade | 6.00 | 98.50 | 108.96 | 15.98 | 44.81 | 201.78 | 474.01 |
| Chouteau | 6.00 | 95.00 | 115.21 | 26.36 | 28.60 | 146.26 | 417.43 |
| Custer | 6.00 | 95.00 | 147.17 | 3.26 | 39.04 | 242.66 | 533.13 |
| Daniels | 6.00 | 95.00 | 139.95 | 31.57 | 32.43 | 220.29 | 525.24 |
| Dawson | 6.00 | 95.00 | 159.87 | 6.39 | 43.13 | 271.15 | 581.34 |
| Deer Lodge | 6.00 | 95.00 | 232.53 | 62.19 | 39.44 | 224.94 | 660.10 |
| Fallon | 6.00 | 95.00 | 107.37 | 5.82 | 3.36 | 22.44 | 239.99 |
| Fergus | 6.00 | 95.00 | 107.94 | 9.52 | 48.86 | 187.47 | 454.79 |
| Flathead | 6.00 | 95.00 | 112.82 | 10.35 | 39.19 | 195.47 | 458.83 |
| Gallatin | 6.00 | 95.00 | 79.04 | 18.00 | 44.06 | 170.35 | 412.45 |
| Garfield | 6.00 | 95.00 | 181.83 | 1.31 | 44.51 | 117.52 | 446.17 |
| Glacier | 6.00 | 95.00 | 132.34 | 5.07 | 65.66 | 231.83 | 535.90 |
| Golden Valley | 6.00 | 95.00 | 65.77 | 2.75 | 30.45 | 152.92 | 352.89 |
| Granite | 6.00 | 95.00 | 122.55 | 8.22 | 30.21 | 163.21 | 425.19 |
| Hill | 6.00 | 95.00 | 112.49 | 8.51 | 52.11 | 173.93 | 448.04 |
| Jefferson | 6.00 | 95.00 | 94.80 | 10.30 | 34.79 | 181.98 | 402.87 |
| Judith Basin | 6.00 | 95.00 | 109.26 | 4.48 | 24.12 | 165.83 | 404.69 |
| Lake | 6.00 | 95.00 | 96.90 | 11.59 | 45.71 | 140.48 | 395.68 |
| Lewis And Clark | 6.00 | 96.50 | 144.81 | 11.41 | 47.51 | 233.38 | 539.61 |
| Liberty | 6.00 | 95.00 | 142.51 | 9.22 | 22.78 | 151.32 | 426.83 |
| Lincoln | 6.00 | 95.00 | 79.19 | 16.69 | 32.17 | 170.86 | 399.91 |
| Madison | 6.00 | 95.00 | 98.56 | 20.99 | 28.92 | 140.77 | 390.24 |
| McCone | 6.00 | 95.00 | 184.04 | 2.57 | 22.52 | 132.28 | 442.41 |
| Meagher | 6.00 | 95.00 | 121.98 | 7.90 | 22.31 | 117.18 | 370.37 |
| Mineral | 6.00 | 95.00 | 102.46 | 15.11 | 40.69 | 207.66 | 466.92 |
| Missoula | 6.00 | 96.50 | 142.24 | 27.59 | 44.05 | 217.65 | 534.03 |
| Musselshell | 6.00 | 95.00 | 143.18 | 11.05 | 46.89 | 188.57 | 490.67 |
| Park | 6.00 | 95.00 | 79.58 | 9.97 | 49.34 | 153.39 | 393.28 |
| Petroleum | 6.00 | 95.00 | 75.96 | 6.11 | 49.10 | 183.51 | 415.68 |
| Phillips | 6.00 | 95.00 | 74.36 | 5.68 | 6.98 | 139.28 | 327.30 |
| Pondera | 6.00 | 95.00 | 148.16 | 11.12 | 57.93 | 185.00 | 503.21 |
| Powder River | 6.00 | 95.00 | 225.58 | 2.29 | 60.36 | 126.43 | 515.66 |
| Powell | 6.00 | 95.00 | 101.09 | 4.35 | 37.37 | 201.57 | 445.38 |
| Prairie | 6.00 | 95.00 | 178.02 | 3.81 | 36.83 | 173.70 | 493.36 |
| Ravalli | 6.00 | 95.00 | 105.99 | 20.97 | 34.98 | 143.21 | 406.15 |
| Richland | 6.00 | 95.00 | 132.34 | 1.95 | 24.37 | 190.51 | 450.17 |
| Roosevelt | 6.00 | 95.00 | 104.37 | 6.43 | 63.78 | 151.68 | 427.26 |
| Rosebud | 6.00 | 95.00 | 19.15 | 11.74 | 15.92 | 63.71 | 211.52 |
| Sanders | 6.00 | 95.00 | 73.41 | 17.45 | 24.72 | 136.30 | 352.88 |
| Sheridan | 6.00 | 95.00 | 133.78 | 14.09 | 38.76 | 195.63 | 483.26 |
| Silver Bow | 6.00 | 96.50 | 167.59 | 24.14 | 52.09 | 209.92 | 556.24 |
| Stillwater | 6.00 | 95.00 | 92.72 | 9.44 | 27.98 | 119.78 | 350.92 |
| Sweet Grass | 6.00 | 95.00 | 114.93 | 7.29 | 35.58 | 126.51 | 385.31 |
| Teton | 6.00 | 95.00 | 125.12 | 5.67 | 42.51 | 202.32 | 476.62 |
| Toole | 6.00 | 95.00 | 120.19 | 4.28 | 47.96 | 156.51 | 429.94 |
| Treasure | 6.00 | 95.00 | 100.03 | 2.84 | 31.97 | 129.78 | 365.62 |
| Valley | 6.00 | 95.00 | 82.79 | 5.57 | 36.81 | 145.04 | 371.21 |
| Wheatland | 6.00 | 95.00 | 105.26 | 1.04 | 32.57 | 123.52 | 363.39 |
| Wibaux | 6.00 | 95.00 | 190.37 | 10.79 | 0.19 | 148.56 | 450.91 |
| Yellowstone | 6.00 | 98.50 | 86.39 | 12.79 | 48.67 | 208.22 | 458.57 |

* Adjusted for Non-City Mills (Road Fund, etc.). Includes entitlement levy.

** Value listed is the county average school levy.

Section 2

- History of Property Tax Legislation
- Appeals
- Senate Bill 461 – 2003 Legislative Session
- Review of Other States
- Land Caps and Land Exemptions
- Annuity Mortgage Loan Program and Property Tax Deferral Programs
- Property Tax Caps

History of Property Tax Legislation

A history of property tax legislation dating from the 1995 Legislative Session through the 2003 Legislative Session was presented to the Property Tax Reappraisal Committee. The presentation is included in Addendum G of this report.

See Addendum G

The report outlines the various methods of reappraisal mitigation the Montana Legislature has used since 1993. The legislature has implemented various method of mitigating reappraisal impacts. Key legislation includes:

- Phasing in of the change in Class 4 (residential and commercial), Class 3 (agricultural land), and Class 10 (forest land) properties over a reappraisal cycle.
- Requiring local governments (other than school districts) to levy no more in property taxes (allowing for new construction) than the amount levied for tax year 1996, without a vote of the electorate.
- Reductions in taxable valuation rates applied to Class 4 and Class 3 properties.
- Implementation of a homestead and comstead exemption for Class 4 properties. Increased amount of exemption in subsequent reappraisal cycle.

This report also contains additional key property tax related legislation including:

- An exemption from property tax and implementation of fees in lieu of tax on truck canopy covers/toppers; campers; trailers, semi trailers, pole trailers and travel trailers (SB26); buses, heavy trucks, truck tractors, and the personal property attached to these vehicles; and quadricycles.
- Moving centrally assessed telecommunications property from Class 9 (taxed at 12%) to a newly created Class 13 (taxed at 6%). In addition, telecom service provider property was moved from Class 7 (taxed at 8%) to Class 5 (taxed at 3%). Due to the federal 4R's Act, these reductions in taxable value for telecommunications property resulted in a reduction in the taxable valuation rate applied to Class 12 railroad and airline property.
- Moving electrical generation property, including coal fired generation plants and hydroelectric producing dams, from Class 9 (taxed at 12%) to the new Class 13 (taxed at 6%). These reductions in taxable value for electrical energy generation property resulted in an additional reduction in the taxable valuation rate applied to Class 12 railroad and airline property.
- Exemption of all intangible personal property from property taxation. Historically the department only taxed intangible personal property through the unit valuation method that is associated with centrally assessed properties.

- Reduction of the taxable percentage applied to Class 8 business equipment from 6% to 3% beginning with tax year 2000. In addition, the bill contained a mechanism that will trigger a phased out elimination of property taxes on business equipment following the first year in which inflation-adjusted growth in Montana wage and salary income equals or exceeds 2.85%.
- The phasing out of property taxes on livestock (Class 6 property), with the phase out complete in tax year 2003.
- Providing that the equipment at business locations where the market value of Class 8 property is \$5,000 or less is exempt from taxation (beginning with tax year 2000).

Addendum G also contains historical trends of the market value and taxable value of property within each of the tax classes. A recap of the information is displayed on pie charts showing a comparison of Class 4 residential and commercial property to mining, utilities and agricultural properties and business equipment for the years 1994, 1997, 2000 and 2003. The recap shows that market value of commercial and residential property in 1997 was 62% of the total. In 2003 it was 65%. This compares with the taxable value of commercial and residential property in 1997 at 47% of the total. In 2003 it was 60%. Taxes levied follow the same trend. It is important to note in this analysis the number of residential and commercial properties are also increasing during this time period.

Appeals

The Property Tax Reappraisal Study Committee reviewed the history of tax appeals. The number of appeals filed by taxpayers at the County Tax Appeal Board (CTAB) and the State Tax Appeal Board (STAB) has been decreasing over the past reappraisal cycles.

The chart below shows the appeal history from 1978 through 2003.

History of Property Tax Appeals
(1978-2003)

| Year | County | State |
|-------------|---------------|--------------|
| 1978 | 5584 | 1396 |
| 1979 | 11048 | 2762 |
| 1980 | 9620 | 2405 |
| 1981 | 4492 | 1123 |
| 1982 | 4832 | 1208 |
| 1983 | 4460 | 1115 |
| 1984 | 1484 | 371 |
| 1985 | 708 | 450 |
| 1986 | 12954 | 3320 |
| 1987 | 2290 | 244 |
| 1988 | 1397 | 429 |
| 1989 | 682 | 172 |
| 1990 | 2050 | 393 |
| 1991 | 2729 | 428 |
| 1992 | 802 | 132 |
| 1993 | 4849 | 2567 |
| 1994 | 330 | 100 |
| 1995 | 146 | 58 |
| 1996 | 121 | 29 |
| 1997 | 547 | 160 |
| 1998 | 148 | 45 |
| 1999 | 114 | 43 |
| 2000 | 24 | 14 |
| 2001 | 25 | 3 |
| 2002 | 72 | 24 |
| 2003 | 600 | 70 |

The data demonstrates the following points:

- Reappraisal year (shown in bold) appeals typically increase at the county and state level. This is a result of:
 - “Sticker shock” due to amount of increase (six-year cycle).
- Steady decrease in appeals from 1987-2003 at both the CTAB and STAB level. This is a result of:
 - Improved data and appraisal techniques.
 - Revenue-neutral legislation (phase-in/lowering of tax rates, homestead/comstead exemptions).
 - Improved taxpayer education.

1986 reappraisal appeals were significantly higher due to the length of time between appraisal cycles and resulting “sticker shock.”

1993 reappraisal appeals at the county and state level were impacted dramatically by the influence of one private property tax specialist company (45% CTAB, 80% STAB) and may not accurately reflect the normal trend of appeals over this timeframe.

The 2003 reappraisal resulted in the fewest appeals filed in a reappraisal year since the state began reappraisal cycles in 1972.

Senate Bill 461 – 2003 Legislative Session

Senate Bill 461 was passed in the 2003 Legislative Session. This bill addressed the 2003 reappraisal cycle by reducing the Class 4 taxable valuation rate and phasing it in from 3.46% in 2002 to 3.01% in 2008. The legislation also phased in an increase in the Class 4 homestead exemption from 31% in 2002 to 34% in 2008. The comstead exemption was also increased and the increase phased in from 13% in 2002 to 15% in 2008. The annual changes to the tax rate and the homestead and comstead exemption is contained on the following chart.

| SB461 Tax Rates for Class 3 and 4 Property Exemption Percentages for Class 4 Residential and Commercial | | | |
|--|----------------------|-------------------------------|------------|
| Tax Year | Class 3 & 4 Tax Rate | Class 4 Exemption Percentages | |
| | | Residential | Commercial |
| 2002 | 3.46% | 31.00% | 13.00% |
| 2003 | 3.40% | 31.00% | 13.00% |
| 2004 | 3.30% | 31.40% | 13.30% |
| 2005 | 3.22% | 32.00% | 13.80% |
| 2006 | 3.14% | 32.60% | 14.20% |
| 2007 | 3.07% | 33.20% | 14.60% |
| 2008 | 3.01% | 34.00% | 15.00% |

Senate Bill 461 also created the Extended Property Tax Assistance Program (EPTAP). The benefits of the program are specific to residential single family residences that experienced extraordinary valuation increases due to the statewide reappraisal. The program was designed to mitigate that valuation increase by allowing for a reduction of the tax rate on qualifying properties from current statutory levels. The statutory tax rate on residential properties for tax year 2004 is 3.30%. The EPTAP program provides for tax rates ranging from 0.01% to 3.29%, depending on the level of qualification for the program. The benefit is applied to the residence and up to five acres of land immediately associated with the residence. The 2004 tax year is the second year of the EPTAP program.

The only taxpayers who received applications in 2003 were those whose properties met three specific criteria, as follows:

- the taxable value of the residence and up to five acres of appurtenant land increased by more than 24% over the 2002 taxable value,
- the tax liability had the potential to increase by at least \$250, and
- the total household income could not exceed \$75,000.

Only those properties which met the three criteria in 2003 are eligible to qualify for the program benefits in 2004. Any of these properties which have been sold since December 31, 2002 or have had new construction or remodeling which increased the reappraised value of the property by more than 25% over the 2003 value, are no longer eligible for any of the benefits of this program.

The average benefit realized by those who qualified for a reduction via this program in tax year 2003 was an average reduction in the tax rate of approximately 0.2% (reduced the tax rate from 3.40% to 3.20%). This translated into an approximate \$75 average savings in taxes. The program initially identified approximately 10,000 eligible properties statewide in 2003. Of those properties, the Department of Revenue received applications back from approximately 3700 property owners, and of those, approximately 1900 properties received a benefit from the program.

In tax year 2004, approximately 8,000 applications were mailed out. Of those approximately 1,750 were returned and 1,300 properties received a benefit from the program. The reductions in forms mailed out for 2004 from 2003 can be attributed to the bill provisions relating to ownership and new construction or remodeling criteria that remove property from eligibility for the program. This trend is expected to continue throughout this reappraisal cycle. Individual county statistics on the program for tax year years 2003 and 2004 are included in Addendum H.

See Addendum H
Review of Other States

Property tax programs in other states were reviewed. In those of states reviewed, there was a relationship between those that have an alternative revenue sources such as sales tax as to whether or not the state assesses mills for school funding purposed such as Montana does. Addendum I contains information for fiscal year 2000 on all 50 states on total sales and property tax collections and a recap of state and local government share of property tax collection.

See Addendum I

In Montana there is no sales tax currently. Property tax collections were 43% of the total state and local government collections. Of that 24% was the state share and 76% was local government. This contrasts with Idaho, for example, which does have a sales tax. In that state, property tax is 26% of the total collections and of that 100% is local government's share.

The only state with a higher percentage of property tax collections of the total tax collection was New Hampshire. It does not have a sales tax. All other states were lower than Montana in this area.

Current news articles and reports were presented to the Property Tax Reappraisal Study Committee regarding other states' issues on property tax and capping. Property taxes paid on residential property for nine states was presented and discussed. Each state's property tax system was analyzed. The committee methodically reviewed the three levels of the property tax process for each state. They were the appraisal or valuation process, the assessment process and the tax bill. Each level was compared to what takes place in Montana's property tax system.

At the appraisal or valuation level, all states reviewed conduct a reappraisal annually. This is done through a periodic reappraisal period of 4 to 5 years, where the values are placed at a base-year appraised value similar to Montana. In Montana, that value is phased in over a six-year cycle; therefore the full reappraisal value is always 6 to 7 years behind the current actual market value of a property. In the other states the reappraisal value is indexed annually between reappraisal cycles. This process provides for current market value each year on property. There is no "catch up" such as in the Montana system. The annual indexing of property in the states reviewed is accomplished through the use of sales ratio studies performed annually by each state.

At the assessment level, each of the states reviewed uses levels of assessment different from Montana. This has a direct tie to what is funded by property taxes in that state. Each state utilized various circuit breakers for low-income homeowners. Some states utilized various circuit breakers for elderly homeowners as well. Few states utilized separate tax classes to the extent they exist in Montana.

The amount of mills used in property tax billing varied widely in all states. This is a result of the wide difference in school funding mechanisms and tax types used in each state.

Land Caps or Land Exemptions

In the 1999 Legislative Session, legislation was passed to attempt to address the impact of rapidly rising property tax values in areas of the state. Many property owners believed that land values were increasing significantly due to purchases of the surrounding land by people, primarily from out of state, who paid much higher prices for the land than Montana residents had paid, or were financially capable of paying. Senate Bill 184, passed by the 1999 Legislature, created what is referred to as the "land cap." The purpose was to allow taxpayers, who years ago bought land at prices far below the now greatly appreciated values of the land, to continue to be able to afford the property taxes on the land and thus continue to keep their home or family cabin.

SB 184 limited, or capped, the value of residential land at the greater of 75% of the improvement value situated on the land, or 75% of the statewide average improvement value of \$69,100. Residential land qualified for the land cap if the land value of up to five acres exceeded 75% of the value of the improvements located on the land. Additionally, the five acres had to be contiguous parcels with single ownership, and the improvements on the property had to include a dwelling or mobile/manufactured home.

If the value of the improvement situated on qualified land was less than the statewide average improvement value of \$69,100, then the capped value of the land was calculated on \$69,100. For instance, if a property had a land value of \$100,000 and an improvement value of \$50,000, then the capped value of the land would be calculated using the statewide average improvement value of \$69,100. In this example, the capped value of the land would be 75% of the \$69,100: which is \$51,825.

Under a scenario where the improvement value on qualifying land is greater than the statewide average improvement value, then the capped value of the land is simply 75% of the improvement value. For example, if a property had a land value of \$100,000 and an improvement value of \$100,000, then the land cap value would be \$75,000 ($\$100,000 \times 75\%$).

The land cap was in effect from tax year 1999 to 2001; House Bill 4 of the 2000 Special Legislative Session eliminated it. Approximately 5,850 properties in 23 counties were capped under the provisions of SB 184.

The Property Tax Reappraisal Study Committee reviewed properties identified in the 2003 reappraisal which increased more than 25% from the previous reappraisal value and that faced a potential tax liability of \$250 or more (ref:

Senate Bill 461). These properties were analyzed using criteria of the land cap model developed in 1999.

The results of the analysis determined the reinstitution of a land cap similar to that established during the 1999 Legislature (75% cap) mitigates a small minority of the value increase due to reappraisal. Lowering the land cap to 50% of the improvement value would increase the number of parcels that would qualify for the land cap by a less than one-half of a percent.

The results of that analysis are contained on the following chart.

| Number of Properties Eligible For Land Cap Based on a Land Cap of 75% | | | |
|--|------------------------|--|-------------------------------------|
| County Number | County Name | Tax liability change of 25% or more and a tax liability change of \$250 or more | Number Land Cap Eligible |
| 01 | Silver Bow | 67 | 10 |
| 02 | Cascade | 188 | 17 |
| 03 | Yellowstone | 733 | 92 |
| 04 | Missoula | 775 | 290 |
| 05 | Lewis & Clark | 423 | 179 |
| 06 | Gallatin | 1273 | 193 |
| 07 | Flathead | 705 | 384 |
| 08 | Fergus | 58 | 0 |
| 09 | Powder River | 9 | 0 |
| 10 | Carbon | 63 | 22 |
| 11 | Phillips | 18 | 0 |
| 12 | Hill | 19 | 0 |
| 13 | Ravalli | 366 | 48 |
| 14 | Custer | 40 | 2 |
| 15 | Lake | 297 | 173 |
| 16 | Dawson | 15 | 0 |
| 17 | Roosevelt | 10 | 0 |
| 18 | Beaverhead | 44 | 6 |
| 19 | Chouteau | 7 | 0 |
| 20 | Valley | 13 | 0 |
| 21 | Toole | 4 | 1 |
| 22 | Big Horn | 0 | 0 |
| 23 | Musselshell | 34 | 0 |
| 24 | Blaine | 61 | 0 |
| 25 | Madison | 341 | 8 |
| 26 | Pondera | 4 | 0 |
| 27 | Richland | 18 | 0 |
| 28 | Powell | 82 | 3 |
| 29 | Rosebud | 1 | 0 |
| 30 | Deer Lodge | 87 | 17 |
| 31 | Teton | 11 | 1 |
| 32 | Stillwater | 50 | 8 |
| 33 | Treasure | 0 | 0 |
| 34 | Sheridan | 38 | 0 |
| 35 | Sanders | 42 | 6 |
| 36 | Judith Basin | 5 | 0 |
| 37 | Daniels | 64 | 0 |
| 38 | Glacier | 3 | 0 |
| 39 | Fallon | 1 | 0 |
| 40 | Sweet Grass | 64 | 7 |
| 41 | McCone | 6 | 0 |
| 42 | Carter | 4 | 0 |
| 43 | Broadwater | 10 | 1 |
| 44 | Wheatland | 7 | 0 |
| 45 | Prairie | 5 | 0 |

| County Number | County Name | Tax liability change of 25% or more and a tax liability change of \$250 or more | Number Land Cap Eligible |
|---------------|---------------|---|--------------------------|
| 46 | Granite | 32 | 16 |
| 47 | Meagher | 19 | 2 |
| 48 | Liberty | 3 | 0 |
| 49 | Park | 253 | 24 |
| 50 | Garfield | 1 | 0 |
| 51 | Jefferson | 7 | 0 |
| 52 | Wibaux | 4 | 0 |
| 53 | Golden Valley | 3 | 0 |
| 54 | Mineral | 39 | 11 |
| 55 | Petroleum | 0 | 0 |
| 56 | Lincoln | 82 | 21 |

The Property Tax Reappraisal Study Committee also reviewed the effects on reappraisal of exempting all or a portion of the land value.

Annuity Mortgage Loan Program and Property Tax Deferral Programs

The Property Tax Reappraisal Study Committee looked at the Reverse Annuity Mortgage Loan Program and Property Tax Deferral Program. Montana currently has a Reverse Annuity Mortgage Loan Program.

- The Reverse Annuity Mortgage Loan Program was authorized by legislation in 1989. It was a program for lower income Montanans to convert the equity in their homes to a monthly payment to help defer some of their expenses. Program participants are allowed to use up to 80% of their home equity with a maximum \$100,000 unit. The Department of Commerce operates this program. Montana is the only state that has a state-administered program. There are other reverse annuity programs through private financial institutions offered in all states.
- Twenty-four states offer a Property Tax Deferral Program. The program allows individuals to defer all or a portion of property taxes until death or time of sale.

A full report on the Reverse Annuity Mortgage Loan Program and Property Tax Deferral Program is included in Addendum J of this report.

See Addendum J

Property Tax Caps

California has an acquisition-value based property tax system (Proposition 13). This system was reviewed in depth by Montana lawmakers in the 2003 Legislative Session. The Property Tax Reappraisal Study Committee felt it had a good understanding of an acquisition-value based property tax system.

Other states reviewed by the committee have implemented, or are considering implementing, property tax cap laws. These states and others are experiencing the same issues and problems that Montana faces. Many of these states are in the process of, or have implemented, a capping mechanism at some level of their process for appraisal, assessment or tax bills.

Brief recaps of information reviewed from other states are listed below.

- The capping mechanisms of Florida, Michigan and Oregon were studied. All three states initiated some form of capping of property taxes either through limiting levy (millage) rates, limiting market value increases or a combination of both. All three states required constitutional changes and had varying degrees of financial impacts on local taxing authorities. Local school funding was a major financial consideration in all three states. Some increased sales taxes or allowed for local mill increases to offset property assessment caps. The Florida model (Save Our Homeowners Initiative) was a capping initiative that deals with homestead property only and addresses the property tax problem from the aspect of the homeowner. Michigan is a model where all properties are capped and the market value system is still maintained. In Michigan, there is a shift and they are dealing with a phase-in on the shift as part of their solution. Oregon is a hybrid of the California Proposition 13 solution mixed with some of the other solutions of the other states. Values in Oregon carry forward with 3% per year increase. Florida and Michigan cap taxes at taxable value.
- Idaho had proposed a capping bill in the last legislative session (Idaho's 2004 Legislative Session - Second Regular) but it failed to pass. Representative Bill Deal indicated to the Department of Revenue that he would be rewriting this bill for Idaho's 2005 Legislative Session. The intent of the bill was to cap the percent of increase that can be experienced in any one year by a residential property owner. The proposal was to cap the property increase to no more than 3% per year of the taxable value.
- Maine also has a initiative implementing a cap to be placed on the November 2004 ballot. The ballot question is: "Do you want to limit property taxes to 1% of the assessed value of the property?" The initiative, known as the Palesky Proposal, would cap property taxes at \$10 per \$1,000 of assessed value, based on values in tax year 1996-97. It also would limit assessment increases to 2% a year while the property's ownership remains in a family. Cities and towns would be able to increase their tax rates above \$10 to pay off debt only if the debt had been approved before 1999 in a "general election" supported by a least two-thirds of voters. Constitutional questions already are being asked. The Palesky Proposal was largely lifted from California's Proposition 13 and contains language that confusingly refers to special taxes and redemption charges, which Maine does not have. In June 2004, voters approved an increase in state aid to education, and obligated the state to cover 55% of local education costs (written into state law).
- Other states that were studied either had a cap or were modifying a cap. Massachusetts has a 2% cap on tax increase and the commercial market is in

decline. They have begun to see a dramatic shift to the commercial base because of the amount of residential property and the increase that is happening there. There is further legislation to mitigate the impact to their commercial properties. Texas caps appraised value and they are experiencing their second or third round of school funding lawsuits. South Dakota has a 7.7% cap rate. There are issues whether that cap is too high or too low and they are looking at the possibility of an adjustment to that cap rate. New Hampshire has a proposal for a senior property tax cap that would limit the amount of property tax for people over age 65. That is a popular initiative in states looking at the elderly population in relation to the caps. Oklahoma has two ad valorem tax relief measures on the November ballot. One of them is to amend a valuation freeze for people over age 65. Another ballot issue would amend the state's constitution with regard to veterans with 100% disability and the impact on their property tax. Arizona has a 5% cap. Washington D.C. is looking at amending their cap. In 2004, they enacted a 12% cap and increased their homestead exemption to \$38,000. It should also be noted the Lithuanian General Assembly is looking at a cap because values are starting to pick up in that country.

Property tax caps and analysis are discussed further, later in this report.

Section 3

- Constitutional Issues
- Impacts of Property Tax Caps in Montana

Constitutional Issues

The Property Tax Reappraisal Study Committee reviewed the property tax issue in relation to the Montana Constitution. The constitution provides: “the state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law”. Legislative Services Division made a presentation to the committee. The full presentation is included in Addendum K of this report.

See Addendum K

A summary of that report, and the key conclusions of the issues discussed, are presented below.

Summary

This is the property tax system that the Montana Legislature has created. The methods involved in the appraisal system and the resulting valuations of property are constitutional. The Montana Legislature has chosen to phase in the valuations. The property tax system remains burdened by the need to provide funding for the state's share of the basic system of education. The legislature is free to act within the parameters discussed in this paper.

Key Conclusions

- Similarly situated individuals and entities must be treated in the same manner.
- A rational basis is required for classification of property.
- Taxes must be levied by general laws for public purposes.
- The valuation of property for tax purposes must be equalized.
- Valuation by uniform standards under a uniform plan results in equal values.
- Equality of values overrides true value of a particular property.
- Market value is a statutory and not a constitutional requirement.
- All jurisdictions must use values established by the state.
- An appeal procedure for valuation and taxes is required.
- Taxation cannot be based primarily on the state residence of a taxpayer.

Constitutional constraints of going to an acquisition-value based system were discussed. Because of the equalization of valuation in the Montana Constitution, acquisition value can't be equalized or Montana would be in a position like California where the value is fixed at the time the property is acquired. When somebody new acquires a similar property six years later, those properties aren't equalized. To do an acquisition value, the Constitution would have to be amended to allow for an acquisition-value system.

Impacts of Property Tax Caps in Montana

After reviewing all of the information described so far in this report, the Property Tax Reappraisal Study Committee elected to focus on the area of placing a cap at some point in the property tax process.

There are three points where the caps can be placed in the property tax process: appraised value level, assessment level and tax bill level.

The Property Tax Reappraisal Study Committee reviewed a great deal of information on the impacts of placing caps at the market value or appraised value level and at the taxable value level. They analyzed the number of taxpayer's residential parcels that would see percentage changes in their liability in tax year 2008, depending on the amount of the cap and whether that cap is placed on the full phased in market value of the property, or placed on the taxable market value of the property after taking the homestead exemption into account, or placed on the final taxable value of the property itself.

See Addendum L

Addendum L contains a portion of the analysis reviewed by the committee. The analysis was done using four different cap levels (3%, 4%, 5% and 6%). The cap was placed at the market value level. The analysis shows that the higher the cap, the fewer taxpayers benefit. For example with a cap of 6%, 24,477 taxpayers would benefit, as compared to a 3% cap, where 68,112 taxpayers would benefit.

See Addendum M

Addendum M contains a portion of the analysis reviewed by the committee from the perspective of caps placed at the taxable value level. Again, the analysis was done using four different cap levels (3%, 4%, 5% and 6%). The cap was placed at the taxable value level. Again, the analysis shows that the higher the cap, the fewer taxpayers benefit. For example with a cap of 6%, 10,960 taxpayers would benefit, as compared to a 3% cap, where 34,492 taxpayers would benefit. The difference in numbers of taxpayers benefiting from placing caps at market value or taxable value is a result of the homestead exemption and the tax rate reduction.

The Property Tax Reappraisal Study Committee analyzed the question of: "What would have been the impact if tax caps had been implemented as a reappraisal mitigation methodology rather than the legislation that was implemented?"

See Addendum N

This analysis is shown in Addendum N of this report. The chart compares the difference in 2008 taxable valuation for properties valued at \$100,000 in 1996 with annual increase from 1% to 10% from 1996 to 2008. The bottom line shown

on the chart is current law. The middle line is the resulting taxable value if current laws had not been implemented, but instead a 4% cap had been placed on the market value increases of a property. The top line shows the impact on taxable value if nothing had been done to mitigate reappraisal increases.

The conclusion of the analysis by the committee is the legislation which has been enacted since 1996 years has by far provided a greater benefit to the majority of taxpayers than would have more benefited taxpayers with an annual increase of less than 10% (last reappraisal cycle increase of 60%) or a total increase in market value over the period 1996 to 2008 of more than 213%.

See Addendum O

As a measure for comparison, Addendum O contains information on the distribution of residential properties by percentage of change in their 2003 reappraisal value over the previous value. Of the 364,449 residential properties 11.6% decreased in value, more than 53.9% increased less than 30%.

The Property Tax Reappraisal Study Committee concentrated on pursuing a cap on Class 4 residential property. They looked toward revision of provisions in Senate Bill 461 from the 2003 Legislative Session. A cap on residential single-family property would replace the current Extended Property Tax Assistance Program enacted in the 2003 Legislative Session.

Senate Bill 461 (current law) would work as to determining what a cap would affect – that is, residential single-family residences. Under what circumstances a cap would be removed would remain as it does in statute today, relating to ownership and new construction or remodeling criteria that remove property from eligibility for the current program.

The Property Tax Reappraisal Study Committee also reviewed a report on the impact on school district general fund mills and the Guaranteed Tax Base (GTB) of capping growth in market or taxable values. That report is contained in Addendum P of this report.

See Addendum P

A recap of the conclusions shown in this report are:

- The effect of each proposal on mills is small in the first year, and increases in later years as the effect of capping growth in values drives a wedge between true value and capped value.
- The mill changes decrease as the cap level is increased.
- Mill changes associated with capping full market value growth are higher than those associated with capping taxable value growth.

The GTB impact is:

- Highest for the proposals capping full market value as compared with capping taxable value.
- Highest for those proposals where the cap is lowest.
- Increasing over time, and will mitigate some of the increase in base mills experienced in those jurisdictions where the caps have their greatest impact on taxable value.

Section 4

Conclusions

Conclusions

The Property Tax Reappraisal Study Committee's charge was to look at the effects of reappraisal. Committee members looked at the mechanical aspects of the current reappraisal system, as well as what other states are doing. Key conclusions reached by the committee were:

The Property Tax Reappraisal Study Committee believes the current six-year reappraisal cycle works fairly well. All classes of property are appraised annually with the exception of Class 3 (agricultural), 4 (residential and commercial) and 10 (forest land) which are on a six-year cycle. Various cycle lengths have been tried in the past. One reason to keep the cycle lengths as short as possible is to reduce "sticker shock." The department is doing a very good job of reappraisal. There are fewer appeals and an internal audit shows that reappraisal is done very well.

The committee looked at the constitutional requirements. Montana currently uses an ad valorem system—taxes are based on the value of the property. There is an equal protection clause in the Constitution. Montana treats different classes differently, and as long as there is a rational basis for treating classes differently, there is no problem with it. Property within a class must be treated the same to comply with the equal protection clause of the constitution.

The committee concluded that the adjustments made to the property tax process for Class 4 residential properties have worked well for the majority of taxpayers. There are properties identified as outliers. They are those with extreme reappraisal increases, approximately 2% of the total Class 4 property assessed.

Legislative action has not allowed taxable value to grow as fast as appraised value, particularly in residential real property. The legislators in the past have lowered the tax rate, and instituted homestead and comstead exemptions.

There is relationship between the appraised value and the actual tax dollars for a property. The state sets the appraised value, and computes the taxable value. The local tax jurisdictions take a taxable value and apply the mills to get the tax dollars. Local governments and schools are far more dependent on property tax revenue than the state. Testimony from the Montana Association of Counties (MACo) and some school districts showed a large reliance on non-levied revenue such as fees. The state has 95 mills for K-12 and 6 mills for higher education and those mills have remained constant over time. In 1992 there was a statewide average mill of 338. In 1997, that rose to 372 mills. In 2002, the average mill levy was 481. Taxable value statewide was \$1.6 million in 1992, \$1.8 million in 1997 and \$1.7 million in 2002. The mill growth from 1997 to 2002 was much more rapid than in prior years. In part, that is due to holding the taxable value down. CI-75 and I-105 placed limits on the revenue local governments could raise. However, local governments can apply mills to get the same amount of dollars. The caps are in dollars, not mills. If the state lowers the taxable value, more mills get applied and more dollars are paid anyway. Mill

levies could rise faster if taxable values are held constant. The committee has to keep in mind the relationship between the mill values and appraised value when dealing with the effects of reappraisal. The legislature has tried to maintain the status quo.

After review of all the presented materials, the Property Tax Reappraisal Study Committee felt that mitigating the effects of reappraisal would probably involve a combination of doing what has been done (lowering the taxable value) and a more serious consideration of a flat cap on some properties.

Some agreement was voiced that if a cap is put in place that it should be at the point of market taxable value, that the cap would be on residential property only and that there would be a removal mechanism whereby values come back up. The committee believed both vacant and improved residential property should be included.

The committee felt that its work, discussions and presentations would give the 2005 Montana Legislature a good understanding and a basic foundation of property tax issues.

There was a motion placed before the committee:

- That the committee produce a bill with a 6% cap on residential property replacing the current Extended Property Tax Assistance Program implemented through Senate Bill 461 in the 2003 Legislative Session.
- The vote failed on a tie vote.

Reasons for tied vote and further discussion by the committee included:

- The caps would result in tax shifts within the tax class and between tax classes.
- There are potential alternative methods, such as tax deferral programs, for dealing with increasing taxes on those least able to afford them.
- Committee members held opposing philosophies.

The Property Tax Reappraisal Study Committee received a publication called "Standard on Property Tax Policy" that was prepared by International Association of Assessing Officers. The publication gives an outline of an ideal property tax system and policy. It discusses mitigating property tax issues, including exemptions, circuit breakers, tax abatements, classification systems, class and value limitation measures, frequent to regular reappraisals and public relations. It also talks about tax policy, market value systems, tax shifts and more. The publication is attached to this report following the addenda.

ADDENDUMS

| | |
|------------|--|
| Addendum A | Committee Members |
| Addendum B | Interested Parties |
| Addendum C | State Revenue Sources |
| Addendum D | Statewide Taxes Collected |
| Addendum E | Timeline of Reappraisal |
| Addendum F | Appendage to Measuring the Quality of Residential Property Reappraisal |
| Addendum G | Historical Trends – Pertinent Legislation |
| Addendum H | Extended Property Tax Assistance |
| Addendum I | Sales and Property Tax by State |
| Addendum J | Reverse Annuity Mortgage Loan Program |
| Addendum K | Constitutional Property Tax Parameters |
| Addendum L | Statewide Impacts of Capping Growth – Market Value |
| Addendum M | Statewide Impacts of capping Growth – Taxable Value |
| Addendum N | Impacts of Capping Growth |
| Addendum O | Distribution of Residential Properties |
| Addendum P | Impacts of Capping Growth on School District General Fund Mills |
| Addendum Q | Standard on Property Tax Policy |

ADDENDUM A



2005 Property Tax Reappraisal Committee

Representative Ron Devlin, Chair
Terry, Montana

Senator Emily Stonington, Vice Chair
Helena, Montana

Senator Bob Story
Park City, Montana

Senator Gregory Barkus
Kalispell, Montana

Senator Ken Toole
Helena, Montana

Representative Rod Bitney
Kalispell, Montana

Representative Gary Branae
Billings, Montana

Representative Larry Cyr
Butte, Montana

ADDENDUM B



2005 Property Tax Reappraisal Committee Interested Parties

Adain Myhre
Helena, Montana

Jeff Martin
Helena, Montana

Al Littler
Billings, Montana

Joe Roberts
Helena, Montana

Steve Bender
Helena, Montana

Leanne Kurtz
Helena, Montana

Bill Lombardi
Helena, Montana

MACo
Helena, Montana

Bob Anez
Helena, Montana

Mary Whittinghill
Helena, Montana

Chuck Johnson
Helena, Montana

Mike Dennison
Helena, Montana

Dan Wagner
Billings, Montana

Mike Pichette
Helena, Montana

Dan Watson

Montana League of Cities
& Towns
Helena, Montana

Dave Woodgerd
Helena, Montana

Montana Residents for Fair
Property Taxation
Whitefish, Montana

David Western

Don Allen
Helena, Montana

Judy Paynter
Helena, Montana

Dr. Ken Nordtvdt
Bozeman, Montana

Peggy Trenk
Helena, Montana

Dud Mahler
Whitefish, Montana

Rhonda Carpenter
Great Falls, Montana

Gary Wiens
Great Falls, Montana

Steve Snezek
Helena, Montana

Glenn Oppel
Billings, Montana

Webb Brown
Helena, Montana

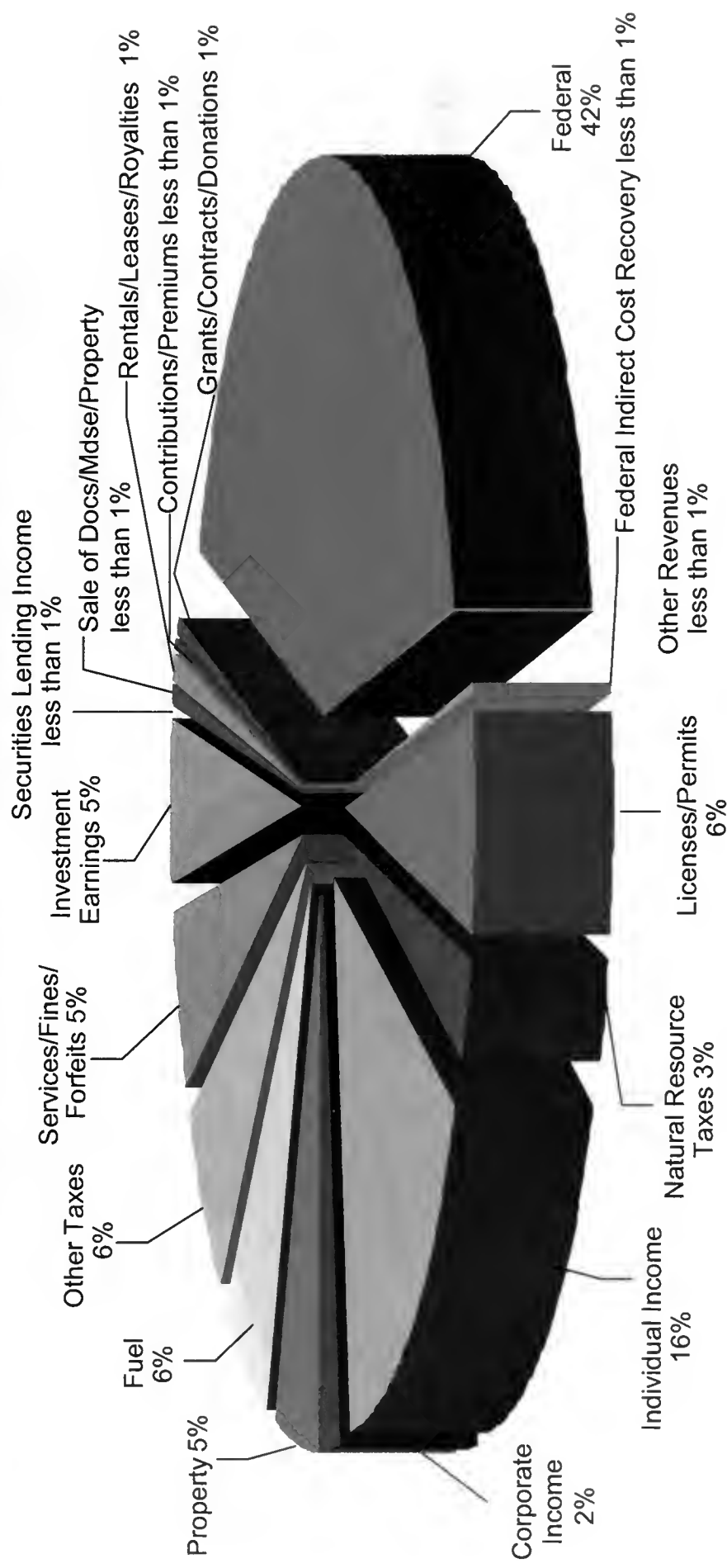
ADDENDUM C



State Revenue Sources

Where State Revenue Came From in FY2002

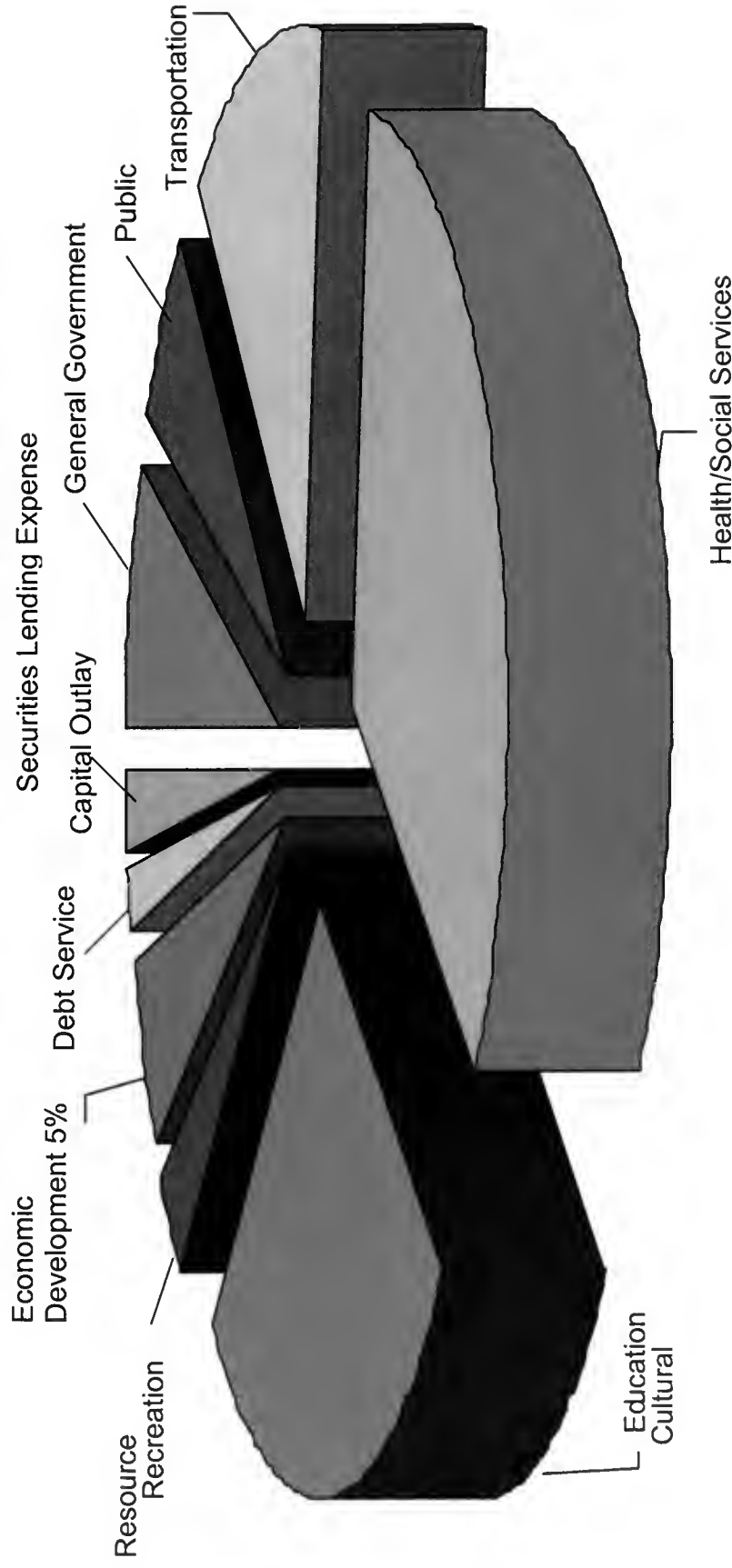
Total revenue from all sources \$3,167,353,000



Total Expenditures

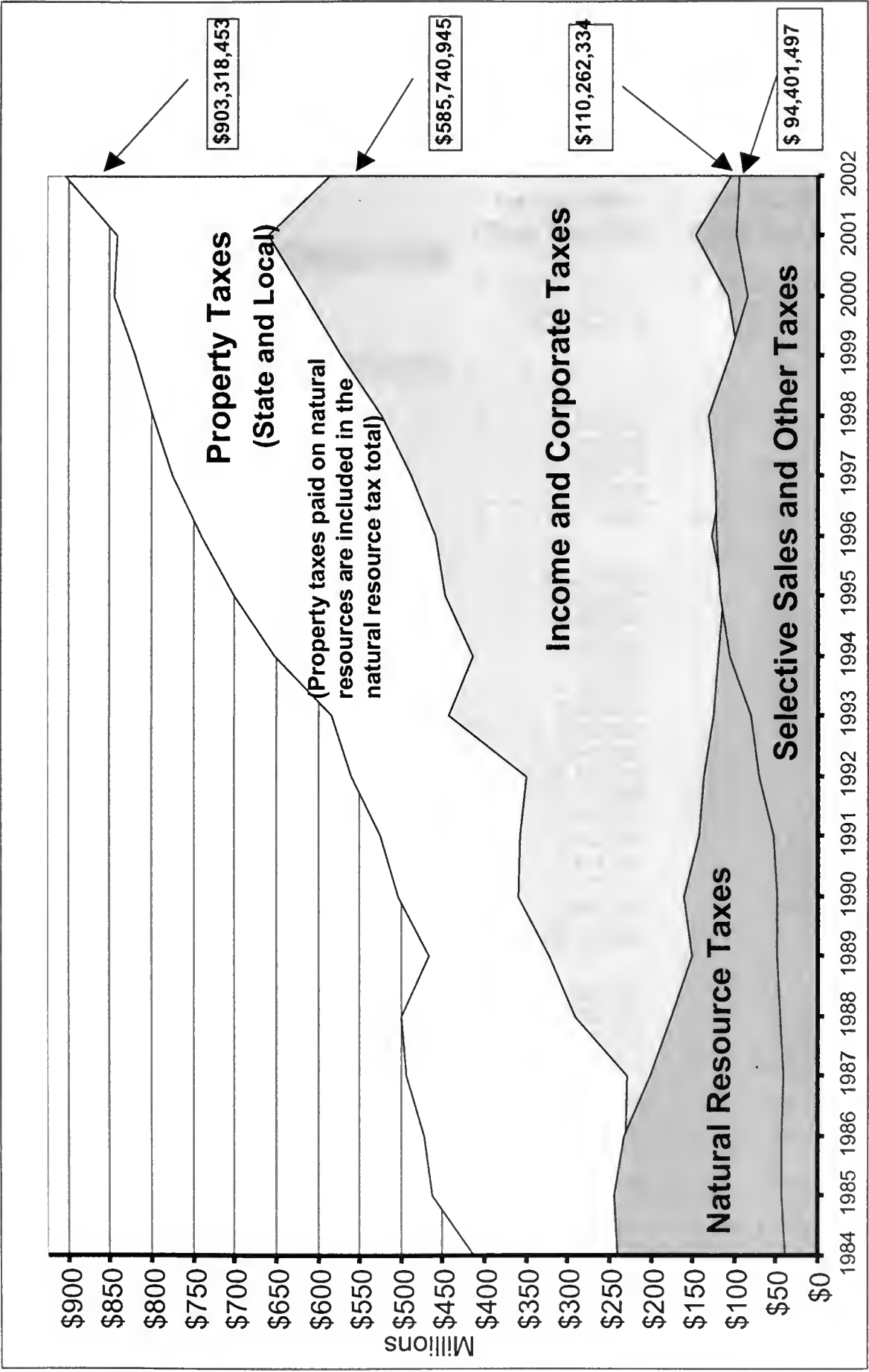
Where State Revenues Went In FY2002

Total revenue from all sources \$3,199,601,000



ADDENDUM D





Taxes Levied on the Montana Property Tax Bill

| | Tax Year 2001 (Fiscal Year 2002) | Tax Year 2002 (Fiscal Year 2003) |
|--|-------------------------------------|-------------------------------------|
| ----- Valuation ----- | | |
| Market Valuation | \$ 44,267,268,656 | \$ 46,488,551,722 |
| Taxable Valuation Statewide Total | 1,698,203,415 | 1,718,653,223 |
| Taxable Valuation in Cities / Towns | 615,204,516 | 623,137,679 |
| ----- Taxes Levied ----- | | |
| State | | |
| University | \$ 10,193,553 | \$ 10,334,649 |
| Vo-Tech (General Fund) | 903,354 | 917,916 |
| State General Fund | 161,397,918 | 163,631,935 |
| State Assumption of Welfare | 237,859 | - |
| Subtotal State | \$ 172,732,683 | \$ 174,884,499 |
| County | | |
| General | 50,327,263 | 46,771,082 |
| Road | 20,274,727 | 21,505,215 |
| Bridge | 6,954,044 | 7,856,032 |
| Poor | 2,137,399 | 2,935,318 |
| Bond Interest | 123,897 | 289,132 |
| County Fair | 2,365,672 | 2,686,409 |
| Library | 6,325,233 | 6,904,349 |
| Agricultural Extension | 2,032,226 | 2,228,106 |
| Planning | 1,045,283 | 1,277,685 |
| Health and Sanitation | 4,129,110 | 4,232,538 |
| Hospital | 1,146,726 | 1,212,153 |
| Airport | 1,056,127 | 1,302,206 |
| District Court | 8,640,446 | 7,689,863 |
| Weed Control | 2,817,859 | 2,951,038 |
| Senior Citizens | 1,313,663 | 1,447,049 |
| Other | 58,966,883 | 70,960,753 |
| Subtotal County | \$ 169,656,560 | \$ 182,248,928 |
| Local Schools | | |
| Elementary | 147,669,759 | 163,427,038 |
| K-12 and High School | 121,848,831 | 136,006,567 |
| Jr. College | 3,699,424 | 3,852,078 |
| Subtotal Local Schools | \$ 273,218,014 | \$ 303,285,684 |
| Countywide Schools | 59,165,700 | 69,619,683 |
| Cities and Towns | 66,590,272 | 72,722,870 |
| Fire and Miscellaneous Districts | 23,011,161 | 24,098,969 |
| Total Property Tax | \$ 764,374,391 | \$ 826,860,634 |
| SIDs and Fees | \$ 80,601,199 | \$ 83,033,029 |
| Total Property Taxes, SIDs and Fees | \$ 844,975,590 | \$ 909,893,663 |

ADDENDUM E



Timeline of Reappraisal

| Base Year | First Reappraisal Cycle | | | | | Second Cycle | | | | | Third Cycle | | | | | Fourth Cycle | | | | | Fifth Cycle | | | | | Sixth Cycle | | | | | Seventh Cycle | | | | | | | | | | | | | | | | |
|--------------------|-------------------------|------|--|----|----|--------------|------|------|----|----|-------------|-------|----|----|------|--------------|----|----|----|----|-------------|------|------|----|----|-------------|------|----|----|----|---------------|------|------|----|----|----|----|------|------|----|----|----|----|------|--|--|--|
| | 1971 | 1972 | 73 | 74 | 75 | 76 | 1977 | 1978 | 79 | 80 | 81 | 82 | 83 | 84 | 1985 | 1986 | 87 | 88 | 89 | 90 | 91 | 1992 | 1993 | 94 | 95 | 1996 | 1997 | 98 | 99 | 00 | 01 | 2002 | 2003 | 04 | 05 | 06 | 07 | 2008 | 2009 | 10 | 11 | 12 | 13 | 2014 | | | |
| Tax Rate | | | 30% | | | | 12% | | | | | 8.55% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | 40 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | 12 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | 1971 values carried forward to 1972. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | Values determined by the cost approach | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | 1973 Legislature directs DOR to develop reappraisal plan | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | Reappraisal plan implemented in 1975. 20% of property revalued each year. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | Lawsuits prompt Governor in 1978 to return to 1974 values | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | 1975 Legislature passes the Realty Transfer Act | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | The 1977 Legislature establishes the market value standard for determining values. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | New reappraisal cycle to begin in 1978. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effective Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assessment Factor | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

ADDENDUM F



Appendage to Measuring the Quality of Residential Property Reappraisal

This appendage presents the results of including sales that were not included in the group of sales analyzed in the original Measuring the Quality of the 2003 Residential Reappraisal study. In the original study 5,553 sales were used in the analysis. Sales with ratios less than 67.9% or greater than 147.0% were not included in the original study. These sales had ratios that were more than two standard deviations from the log of the ratios. There were 372 excluded sales, or 6.7% of the total number of sales. The purpose of this appendage is to analyze this excluded group of sales and determine what impact, if any, inclusion of these sales in the original analysis would have had on the original results.

Results

The additional sales were analyzed in the same manner as the sales in the original study. Appendix A displays the number of sales by county in the original analysis and the additional 379 sales. Intuitively, such a small number should not significantly impact the results from the original study.

To determine if this is true, the 379 sales were combined with the original sales and all sales were analyzed as a whole. The results were very similar to the original study. It should be noted that sales with ratios far from the median should be examined carefully to determine whether they can legitimately be included in a ratio study analysis. Given time constraints this was not done.

The statewide overall level of assessment, as measured by the median ratio, is 99.07% for the combined sales data set, compared to 99.18% in the original study. The COD for the combined data set is 12.7% as compared to 9.7% of the original study. A COD of 12.7% is still below the 15% level recommended by IAAO and within the COD standards.

The statewide price-related differential for the combined data set is 1.0299, which is just within the 0.98 to 1.03 range suggested by the IAAO. This indicates that neither progressivity or regressivity occurred in the reappraisal. For comparison, the original study revealed a price-related differential of 1.0195.

Conclusion

Although inclusion of the omitted sales would change the uniformity statistics (standard deviation, COD and PRD) among counties with low numbers of sales, the addition of the excluded sales has little impact statewide on the original study. Statistical analysis of all available sales, using standards recommended by IAAO, does not change the conclusion of the original study. That conclusion was that the 2003 reappraisal can be characterized as being of high quality.

Appendix A
County Analysis of Sales
Sales Omitted in Original Analysis

| County | Number in Original Analysis | Number Omitted* | Total Number Combined | Omitted as % of Total |
|---------------|--------------------------------|--------------------|--------------------------|--------------------------|
| Beaverhead | 43 | 2 | 45 | 4.4% |
| Big Horn | 16 | 8 | 24 | 33.3% |
| Blaine | 5 | 5 | 10 | 50.0% |
| Broadwater | 8 | 1 | 9 | 11.1% |
| Carbon | 89 | 6 | 95 | 6.3% |
| Carter | 3 | 1 | 4 | 25.0% |
| Cascade | 498 | 16 | 514 | 3.1% |
| Chouteau | 16 | 1 | 17 | 5.9% |
| Custer | 64 | 4 | 68 | 5.9% |
| Daniels | 7 | 1 | 8 | 12.5% |
| Dawson | 34 | 1 | 35 | 2.9% |
| Deer Lodge | 35 | 5 | 40 | 12.5% |
| Fallon | 11 | 4 | 15 | 26.7% |
| Fergus | 53 | 10 | 63 | 15.9% |
| Flathead | 722 | 41 | 763 | 5.4% |
| Gallatin | 810 | 46 | 856 | 5.4% |
| Garfield | 3 | 0 | 3 | 0.0% |
| Glacier | 10 | 7 | 17 | 41.2% |
| Golden Valley | 0 | 0 | 0 | NA |
| Granite | 13 | 5 | 18 | 27.8% |
| Hill | 78 | 6 | 84 | 7.1% |
| Jefferson | 58 | 3 | 61 | 4.9% |
| Judith Basin | 5 | 1 | 6 | 16.7% |
| Lake | 73 | 6 | 79 | 7.6% |
| Lewis & Clark | 364 | 22 | 386 | 5.7% |
| Liberty | 1 | 2 | 3 | 66.7% |
| Lincoln | 160 | 5 | 165 | 3.0% |
| Madison | 131 | 11 | 142 | 7.7% |
| McCone | 5 | 1 | 6 | 16.7% |
| Meagher | 9 | 2 | 11 | 18.2% |
| Mineral | 18 | 6 | 24 | 25.0% |
| Missoula | 663 | 29 | 692 | 4.2% |
| Musselshell | 5 | 4 | 9 | 44.4% |
| Park | 90 | 7 | 97 | 7.2% |
| Petroleum | 1 | 0 | 1 | 0.0% |
| Phillips | 7 | 2 | 9 | 22.2% |
| Pondera | 15 | 2 | 17 | 11.8% |
| Powder River | 3 | 2 | 5 | 40.0% |
| Powell | 13 | 2 | 15 | 13.3% |
| Prairie | 4 | 2 | 6 | 33.3% |
| Ravalli | 234 | 14 | 248 | 5.6% |
| Richland | 24 | 4 | 28 | 14.3% |
| Roosevelt | 20 | 4 | 24 | 16.7% |
| Rosebud | 27 | 4 | 31 | 12.9% |
| Sanders | 46 | 6 | 52 | 11.5% |
| Sheridan | 19 | 1 | 20 | 5.0% |
| Silver Bow | 150 | 18 | 168 | 10.7% |
| Stillwater | 36 | 3 | 39 | 7.7% |
| Sweet Grass | 20 | 1 | 21 | 4.8% |
| Teton | 22 | 3 | 25 | 12.0% |
| Toole | 16 | 2 | 18 | 11.1% |
| Treasure | 2 | 1 | 3 | 33.3% |
| Valley | 38 | 11 | 49 | 22.4% |
| Wheatland | 5 | 1 | 6 | 16.7% |
| Wibaux | 0 | 0 | 0 | NA |
| Yellowstone | <u>751</u> | <u>20</u> | <u>771</u> | <u>2.6%</u> |
| Totals | 5,553 | 372 | 5,925 | 6.7% |

*Those omitted from the original analysis had a ratio of less than 67.9% or greater than 147.0%.
Criteria for omitted sales is two standard deviations from the log of the ratios.

Appendix B - Using Old Reappraisals in Analysis
Assessment Level, Coefficient of Dispersion (COD), and Price Related Difference (PRD)
Counties with 30 or More Sales and Grouped Counties

PRD = Mean / Wtd. Mean

| County Name | Count of Sales | PRD = Mean / Wtd. Mean | | | Standard Deviation | (COD) Coefficient of Dispersion | (PRD) Price Related Difference |
|---|----------------|------------------------|---------------|---------------|--------------------|------------------------------------|-----------------------------------|
| | | Median | Mean | Wtd. Mean | | | |
| Beaverhead | 43 | 0.7863 | 0.8441 | 0.8569 | 0.2235 | 21.9% | 0.9850 |
| Carbon | 88 | 0.8458 | 0.8844 | 0.8176 | 0.3113 | 25.1% | 1.0817 |
| Cascade | 507 | 0.8456 | 0.8508 | 0.8433 | 0.1494 | 12.2% | 1.0088 |
| Custer | 62 | 0.9092 | 0.9739 | 0.8845 | 0.3583 | 27.9% | 1.1011 |
| Dawson | 34 | 0.9292 | 0.9576 | 0.9395 | 0.1829 | 15.2% | 1.0193 |
| Deer Lodge | 32 | 0.7182 | 0.7820 | 0.7176 | 0.2412 | 26.2% | 1.0897 |
| Fergus | 58 | 0.8740 | 0.9003 | 0.8299 | 0.2540 | 19.2% | 1.0849 |
| Flathead | 729 | 0.8051 | 0.8190 | 0.7783 | 0.1872 | 17.1% | 1.0523 |
| Gallatin | 790 | 0.7549 | 0.7534 | 0.7546 | 0.1691 | 17.4% | 0.9984 |
| Hill | 77 | 0.9125 | 0.9410 | 0.9152 | 0.2168 | 16.2% | 1.0282 |
| Jefferson | 57 | 0.7585 | 0.7575 | 0.7873 | 0.1372 | 13.8% | 0.9621 |
| Lake | 78 | 0.8003 | 0.8421 | 0.7791 | 0.2071 | 21.1% | 1.0808 |
| Lewis & Clark | 354 | 0.8221 | 0.8157 | 0.8219 | 0.1716 | 15.0% | 0.9925 |
| Lincoln | 162 | 0.8634 | 0.8548 | 0.8408 | 0.1843 | 16.6% | 1.0166 |
| Madison | 122 | 0.7427 | 0.8031 | 0.6796 | 0.2647 | 27.1% | 1.1817 |
| Missoula | 660 | 0.7655 | 0.7712 | 0.7627 | 0.1449 | 13.5% | 1.0111 |
| Park | 90 | 0.7873 | 0.7978 | 0.7826 | 0.2052 | 19.8% | 1.0194 |
| Ravalli | 233 | 0.7923 | 0.7860 | 0.7898 | 0.1540 | 14.9% | 0.9952 |
| Sanders | 50 | 0.8250 | 0.8721 | 0.8237 | 0.2140 | 20.1% | 1.0587 |
| Silver Bow | 165 | 0.9443 | 1.0357 | 0.9163 | 0.3606 | 28.1% | 1.1303 |
| Stillwater | 37 | 0.7221 | 0.7715 | 0.7580 | 0.2015 | 20.3% | 1.0178 |
| Valley | 33 | 1.0000 | 1.0866 | 0.9476 | 0.3824 | 26.3% | 1.1467 |
| Yellowstone | 740 | 0.7862 | 0.7887 | 0.7915 | 0.1343 | 12.4% | 0.9964 |
| Mineral, Granite, Powell | 57 | 0.6302 | 0.6176 | 0.6166 | 0.0522 | 27.3% | 1.0016 |
| Broadwater, Golden Valley, Meagher, Musselshell, Sweet Grass, Wheatland | 56 | 0.6402 | 0.6485 | 0.6466 | 0.0288 | 22.1% | 1.0029 |
| Blaine, Chouteau, Glacier, Judith Basin, Liberty, Pondera, Teton, Toole | 113 | 0.6937 | 0.6906 | 0.6877 | 0.0341 | 15.4% | 1.0042 |
| Big Horn, Garfield, Petroleum, Phillips, Rosebud, Treasure | 71 | 0.6875 | 0.7001 | 0.6938 | 0.0410 | 14.6% | 1.0091 |
| Carter, Fallon, McCone, Powder River, Prairie, Richland, Wibaux | 64 | 0.6900 | 0.6743 | 0.6729 | 0.0401 | 17.2% | 1.0021 |
| Daniels Roosevelt, Sheridan | 52 | 0.6668 | 0.6935 | 0.6873 | 0.0352 | 19.5% | 1.0090 |
| Statewide | 5,579 | 0.8053 | 0.8235 | 0.7906 | 0.2091 | 18.0% | 1.0416 |

ADDENDUM G



Historical Trends of Property Tax - Pertinent Legislation (1995 – 2003)

54th Legislative Session – 1995

SB417 This bill reduced the taxable valuation rate applied to Class 8 business equipment as follows:

| <u>Tax Year</u> | <u>Tax Rate</u> |
|-----------------|-----------------|
| 1995 | 9% |
| 1996 | 8% |
| 1997 | 7% |
| 1998+ | 6% |

55th Legislative Session – 1997

SB26/SB57 These bills exempted from property tax, and implemented fees in lieu of tax on, truck canopy covers/toppers; campers; trailers, semitrailers, pole trailers and travel trailers (SB26); buses, heavy trucks, truck tractors, and the personal property attached to these vehicles; and quadricycles (SB57).

SB195 This bill addressed the impact of the 1996 reappraisal by:

- phasing in the change in class 4 residential and commercial properties at a rate of 2% per year (the Department adopted rules providing for the phase-in of new construction and remodeling);
- reducing the taxable valuation rate applied to Class 4 properties by 0.022 percentage points each year; and
- requiring local governments (other than school districts) to levy no more in property taxes (allowing for new construction) than the amount levied for tax year 1996, without a vote of the electorate.

F56th Legislative Session – 1999

HB128 This bill moved centrally assessed telecommunications property from class 9 (taxed at 12%) to a newly created class 13 (taxed at 6%). In addition, telecom service provider property was moved from class 7 (taxed at 8%) to class 5 (taxed at 3%). Due to the federal 4R's Act, these reductions in taxable value for telecommunications property resulted in a reduction in the taxable valuation rate applied to class 12 railroad and airline property.

- HB 174 This bill moved electrical generation property, including coal fired generation plants and hydroelectric producing dams, from class 9 (taxed at 12%) to the new class 13 (taxed at 6%). These reductions in taxable value for electrical energy generation property resulted in an additional reduction in the taxable valuation rate applied to class 12 railroad and airline property.
- SB111 This bill exempted all intangible personal property from property taxation. Historically the department only taxed intangible personal property through the unit valuation method that is associated with centrally assessed properties.
- SB184 This bill addressed the 1997 reappraisal as follows:

The assessed values of class 3 (agricultural land), class 4 (residential and commercial real), and class 10 (forestland) properties were phased-in to the full 1997 reappraisal value over a four-year period, beginning with tax year 1999. Taxable valuation rates applied to property in classes 3, 4, and 10 were reduced each year of the phase-in to offset the increase in assessed value as follows:

| <u>Tax Year</u> | <u>Class 3 and 4 TV Rate</u> | <u>Class 10 TV Rate</u> |
|-----------------|------------------------------|-------------------------|
| 1999 | 3.7105% | 0.68% |
| 2000 | 3.6270% | 0.57% |
| 2001 | 3.5435% | 0.46% |
| 2002 | 3.4600% | 0.35% |

For the first time in Montana residential properties were provided with a "homestead exemption" and commercial properties were provided with a "comstead exemption" as follows:

| <u>Tax Year</u> | <u>Homestead Exemption</u> | <u>Comstead Exemption</u> |
|-----------------|----------------------------|---------------------------|
| 1999 | 16.0% | 6.5% |
| 2000 | 23.0% | 9.0% |
| 2001 | 27.5% | 11.0% |
| 2002 | 31.0% | 13.0% |

In addition SB184 also affected several areas dealing with property tax and local governments by:

- providing a method for calculating maximum mill levies for taxing units;
- implementing a six-year reappraisal cycle; and
- providing reimbursements to local governments for losses in revenue.

SB200 SB200 reduced the taxable percentage applied to class 8 business equipment from 6% to 3% beginning with tax year 2000. In addition, the bill contained a mechanism that will trigger a phased out elimination of property taxes on business equipment following the first year in which inflation-adjusted growth in Montana wage and salary income equals or exceeds 2.85%.

SB200 phased out property taxes on livestock (class 6 property), with the phase out complete in tax year 2003.

SB200 also provided that the equipment at business locations where the market value of class 8 property is \$5,000 or less is exempt from taxation (beginning with tax year 2000).

58th Legislative Session – 2003

SB 461 This bill addressed the 2003 reappraisal cycle by reducing the class 4 taxable valuation rate, and increasing class 4 homestead and comstead exemptions as follows:

| SB461 Tax Rates for Class 3 and 4 Property | | | |
|---|---------------------------------|--------------------------------------|-------------------|
| Exemption Percentages for Class 4 Residential and Commercial | | | |
| Tax Year | Class 3 & 4 Tax Rate | Class 4 Exemption Percentages | |
| | | Residential | Commercial |
| 2002 | 3.46% | 31.00% | 13.00% |
| 2003 | 3.40% | 31.00% | 13.00% |
| 2004 | 3.30% | 31.40% | 13.30% |
| 2005 | 3.22% | 32.00% | 13.80% |
| 2006 | 3.14% | 32.60% | 14.20% |
| 2007 | 3.07% | 33.20% | 14.60% |
| 2008 | 3.01% | 34.00% | 15.00% |

The impacts of this legislation will arise over the course of the next several years.

Table 1

Historical Trend of the Market Value of Property by Property Tax Class 1993 Through 2003

| Tax Class | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Class 1 | \$ 3,953,607 | \$ 4,016,317 | \$ 4,558,295 | \$ 6,862,498 | \$ 7,625,083 | \$ 7,026,572 | \$ 5,178,965 | \$ 7,842,501 | \$ 8,691,402 | \$ 7,808,005 |
| Class 2 | 322,297,094 | 307,840,829 | 406,479,575 | 301,453,333 | 292,694,914 | 276,068,509 | 282,032,558 | 367,187,353 | 355,644,076 | 293,201,174 |
| Class 3 | 3,593,712,853 | 3,601,712,279 | 3,820,132,022 | 3,624,184,970 | 3,622,646,409 | 3,616,735,374 | 3,693,824,413 | 3,768,410,515 | 3,845,087,046 | 3,942,941,138 |
| Class 4 Res | 15,950,122,961 | 16,562,443,887 | 17,141,708,241 | 17,940,008,436 | 18,643,111,628 | 17,796,697,472 | 18,589,123,097 | 19,735,149,408 | 21,325,253,325 | 22,590,581,358 |
| Class 4 Com | 5,601,891,806 | 5,809,497,638 | 6,008,487,890 | 6,281,488,346 | 6,569,075,904 | 6,548,701,521 | 6,970,080,641 | 7,449,127,210 | 7,928,405,475 | 8,157,684,252 |
| Class 5 | 867,286,156 | 997,832,131 | 1,080,500,187 | 1,155,932,959 | 1,151,307,080 | 1,247,614,156 | 1,254,480,622 | 1,190,985,469 | 1,180,181,662 | 1,090,984,237 |
| Class 6 | 751,288,442 | 691,875,123 | 612,827,809 | 548,960,950 | 591,974,152 | 564,279,771 | 598,147,754 | 623,039,787 | 616,075,480 | - |
| Class 7 | 10,872,814 | 20,881,717 | 21,885,241 | 20,197,150 | 22,263,389 | 23,520,270 | 1,948,344 | 2,383,014 | 2,705,175 | 12,439,383 |
| Class 8 | 3,001,873,099 | 2,964,990,866 | 2,976,846,631 | 3,270,277,414 | 3,507,976,378 | 3,705,563,950 | 3,727,546,491 | 3,943,691,027 | 4,012,212,828 | 3,995,585,302 |
| Class 9 | 3,509,267,495 | 3,567,368,045 | 3,720,837,580 | 4,016,758,208 | 4,121,533,082 | 4,150,708,200 | 1,923,996,519 | 1,833,281,826 | 1,719,851,111 | 1,767,716,825 |
| Class 10 | 921,205,325 | 831,896,773 | 922,876,382 | 942,916,709 | 971,862,951 | 1,252,954,161 | 1,518,916,567 | 1,782,294,827 | 2,048,625,084 | 1,939,802,129 |
| Class 12 | 852,409,662 | 877,088,896 | 1,022,487,417 | 1,078,114,897 | 1,057,796,998 | 1,121,329,900 | 1,162,048,050 | 1,155,780,944 | 1,161,404,952 | 1,176,037,585 |
| Class 13 | - | - | - | - | - | - | 2,466,168,577 | 2,408,134,775 | 2,286,414,106 | 2,093,709,043 |
| Total MKT Value | \$ 35,346,179,314 | \$ 36,237,244,501 | \$ 37,539,827,250 | \$ 39,187,151,870 | \$ 40,559,687,968 | \$ 40,311,197,856 | \$ 42,193,300,598 | \$ 44,267,268,858 | \$ 46,488,551,722 | \$ 47,038,490,411 |

Combined

| | | | | | | | | | | |
|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Class 7, 9, 13 | \$ 3,520,140,309 | \$ 3,588,249,762 | \$ 3,742,722,821 | \$ 4,036,955,358 | \$ 4,143,796,471 | \$ 4,174,226,470 | \$ 4,392,113,440 | \$ 4,243,779,615 | \$ 4,008,970,392 | \$ 3,873,865,231 |
|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|

TABLE 2
Historical Trend of the Taxable Value of Property by Property Tax Class 1993 Through 2003

| Tax Class | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Class 1 | \$ 3,953,607 | \$ 4,016,317 | \$ 4,558,295 | \$ 6,862,498 | \$ 7,625,083 | \$ 7,026,572 | \$ 5,178,965 | \$ 7,842,501 | \$ 8,691,402 | \$ 7,808,005 |
| Class 2 | 9,668,914 | 9,235,225 | 12,194,387 | 9,043,600 | 8,780,846 | 8,282,057 | 8,460,975 | 11,015,353 | 10,669,321 | 8,799,575 |
| Class 3 | 143,242,021 | 143,358,237 | 144,153,170 | 143,780,426 | 143,007,340 | 139,192,024 | 139,255,994 | 139,057,406 | 138,900,095 | 140,240,224 |
| Class 4 Res | 610,558,642 | 634,292,137 | 655,046,513 | 681,598,503 | 704,138,927 | 653,771,296 | 667,865,912 | 692,948,871 | 731,671,491 | 760,326,905 |
| Class 4 Com | 214,166,040 | 222,102,000 | 229,273,374 | 238,468,848 | 247,919,791 | 240,417,014 | 250,256,341 | 261,153,471 | 271,202,451 | 274,329,534 |
| Class 5 | 25,755,360 | 29,395,172 | 31,732,438 | 34,033,540 | 34,068,495 | 37,015,035 | 37,449,236 | 35,631,826 | 35,382,198 | 32,725,014 |
| Class 6 | 30,055,879 | 27,662,522 | 24,512,945 | 21,958,438 | 23,679,865 | 22,570,979 | 17,941,172 | 12,459,077 | 6,167,237 | - |
| Class 7 | 869,825 | 1,670,427 | 1,750,823 | 1,615,772 | 1,781,069 | 1,881,621 | 155,867 | 189,041 | 216,414 | 995,149 |
| Class 8 | 259,443,039 | 269,081,886 | 241,529,113 | 220,482,314 | 203,540,116 | 215,748,092 | 109,560,688 | 116,604,839 | 118,348,926 | 118,296,988 |
| Class 9 | 421,112,094 | 427,834,515 | 446,457,343 | 481,958,252 | 494,534,742 | 498,030,237 | 230,832,978 | 219,955,767 | 206,360,123 | 212,110,930 |
| Class 10 | 7,277,628 | 7,305,759 | 7,290,671 | 7,449,042 | 7,677,880 | 8,520,090 | 8,658,284 | 8,198,788 | 7,170,239 | 6,789,287 |
| Class 12 | 60,961,506 | 62,382,767 | 69,120,140 | 68,029,050 | 65,266,087 | 68,192,588 | 49,557,929 | 48,658,380 | 46,688,479 | 45,630,257 |
| Class 13 | - | - | - | - | - | - | 147,138,517 | 144,488,095 | 137,184,847 | 125,622,547 |
| TV of All | \$1,787,064,555 | \$ 1,838,336,965 | \$ 1,867,619,212 | \$ 1,915,280,283 | \$ 1,942,020,241 | \$ 1,900,647,605 | \$ 1,672,312,858 | \$ 1,698,203,415 | \$ 1,718,653,223 | \$ 1,733,674,415 |

Combined
Class 7, 9, 13 \$ 421,981,919 \$ 429,504,942 \$ 448,208,166 \$ 483,574,024 \$ 496,315,811 \$ 499,911,858 \$ 378,127,362 \$ 364,632,903 \$ 343,761,384 \$ 338,728,626

TABLE 3
Historical Trend of Property Tax Revenue by Property Tax Class 1993 Through 2003

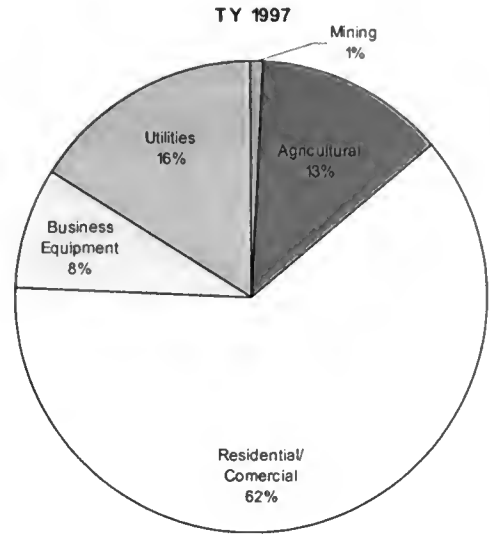
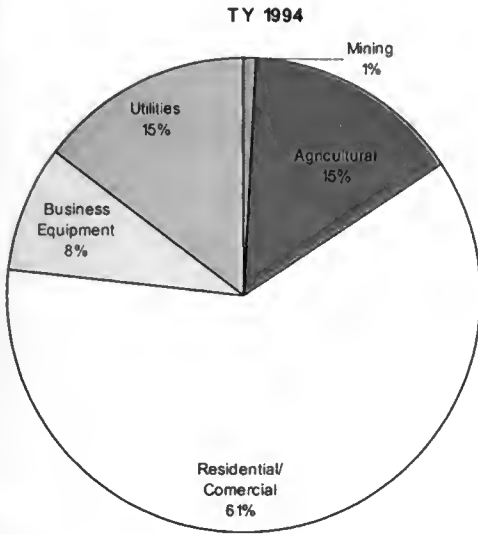
| Tax Class | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Class 1 | \$ 1,199,010 | \$ 1,171,284 | \$ 1,414,905 | \$ 2,038,708 | \$ 2,350,297 | \$ 2,200,900 | \$ 1,723,001 | \$ 2,618,325 | \$ 2,926,723 | \$ 2,882,114 |
| Class 2 | 3,269,004 | 3,309,172 | 4,634,519 | 3,481,081 | 3,814,503 | 3,173,637 | 3,216,216 | 4,055,232 | 4,073,178 | 3,686,568 |
| Class 3 | 46,442,021 | 47,874,847 | 49,540,084 | 49,610,380 | 53,037,614 | 51,765,870 | 53,518,598 | 55,245,257 | 59,701,015 | 64,554,033 |
| Class 4 Res | 236,959,159 | 248,426,769 | 264,795,838 | 277,348,510 | 305,357,644 | 287,626,895 | 305,064,295 | 332,476,547 | 369,678,764 | 401,975,438 |
| Class 4 Com | 89,692,253 | 93,855,350 | 99,196,382 | 104,820,831 | 115,627,571 | 115,487,539 | 125,112,177 | 136,651,764 | 150,364,069 | 159,492,353 |
| Class 5 | 7,174,632 | 8,404,038 | 9,457,974 | 10,438,471 | 11,371,161 | 12,906,183 | 13,673,327 | 13,581,857 | 14,470,597 | 14,449,933 |
| Class 6 | 9,615,488 | 9,087,251 | 8,293,114 | 7,516,339 | 8,718,855 | 8,283,086 | 6,798,816 | 4,891,816 | 2,608,870 | - |
| Class 7 | 469,669 | 505,667 | 552,428 | 528,648 | 634,399 | 695,380 | 79,817 | 100,643 | 121,112 | 584,878 |
| Class 8 | 89,565,166 | 95,263,363 | 88,457,821 | 81,845,613 | 83,357,551 | 89,537,211 | 47,116,259 | 52,107,577 | 56,720,962 | 59,967,711 |
| Class 9 | 121,001,201 | 124,889,503 | 133,912,469 | 148,244,322 | 164,160,258 | 167,612,747 | 93,875,141 | 92,014,678 | 92,403,791 | 102,011,881 |
| Class 10 | 2,450,008 | 2,462,117 | 2,556,699 | 2,655,400 | 2,983,486 | 3,248,077 | 3,441,593 | 3,435,066 | 3,150,842 | 3,153,644 |
| Class 12 | 20,686,212 | 21,422,389 | 24,587,329 | 24,715,848 | 25,576,905 | 26,505,165 | 20,175,533 | 20,642,673 | 21,226,957 | 21,986,549 |
| Class 13 | - | - | - | - | - | - | 47,401,309 | 48,807,208 | 49,393,358 | 48,765,253 |
| Total Revenue | \$ 628,523,821 | \$ 656,671,751 | \$ 687,399,563 | \$ 713,244,153 | \$ 776,990,245 | \$ 769,042,691 | \$ 721,196,083 | \$ 766,628,644 | \$ 826,840,237 | \$ 883,510,356 |
| Combined | | | | | | | | | | |
| Class 7, 9, 13 | \$ 121,470,870 | \$ 125,395,170 | \$ 134,464,897 | \$ 148,772,970 | \$ 164,794,657 | \$ 168,308,127 | \$ 141,356,267 | \$ 140,922,530 | \$ 141,918,261 | \$ 151,362,012 |

Table 4
Historical Trend of Mill Levies on Property by Property Tax Class 1993 Through 2003

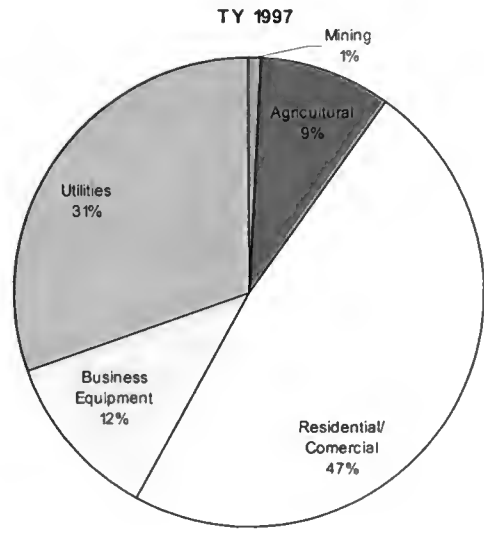
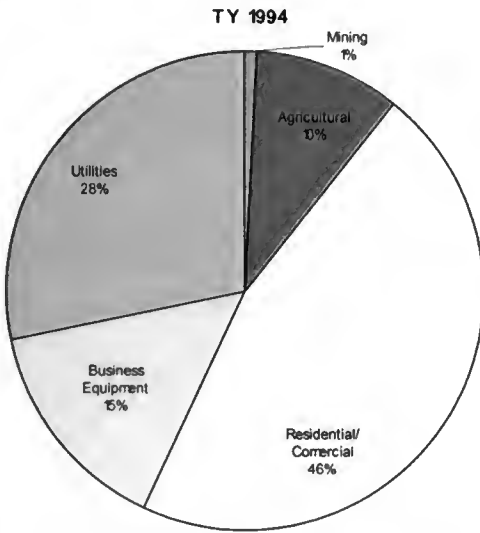
| Tax Class | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Class 1 | 303.27 | 291.63 | 310.40 | 297.08 | 308.23 | 313.23 | 332.69 | 333.86 | 336.74 | 369.12 |
| Class 2 | 338.09 | 358.32 | 380.05 | 384.92 | 434.41 | 383.19 | 380.12 | 368.14 | 381.77 | 418.95 |
| Class 3 | 324.22 | 333.95 | 343.66 | 345.04 | 370.87 | 371.90 | 384.32 | 397.28 | 429.81 | 460.31 |
| Class 4 Res | 388.10 | 391.66 | 404.24 | 406.91 | 433.66 | 439.95 | 456.77 | 479.80 | 505.25 | 528.69 |
| Class 4 Com | 418.80 | 422.58 | 432.66 | 439.56 | 466.39 | 480.36 | 499.94 | 523.26 | 554.43 | 581.39 |
| Class 5 | 278.57 | 285.90 | 298.05 | 306.71 | 333.77 | 348.67 | 365.12 | 381.17 | 408.98 | 441.56 |
| Class 6 | 319.92 | 328.50 | 338.32 | 342.30 | 368.20 | 366.98 | 378.95 | 392.63 | 423.02 | - |
| Class 7 | 539.96 | 302.72 | 315.52 | 327.18 | 356.19 | 369.56 | 512.08 | 532.39 | 559.63 | 587.73 |
| Class 8 | 345.22 | 354.03 | 366.24 | 371.21 | 409.54 | 415.01 | 430.05 | 446.87 | 479.27 | 506.93 |
| Class 9 | 287.34 | 291.91 | 299.94 | 307.59 | 331.95 | 336.55 | 406.68 | 418.33 | 447.78 | 480.94 |
| Class 10 | 336.65 | 337.01 | 350.68 | 356.48 | 388.58 | 381.23 | 397.49 | 418.97 | 439.43 | 464.50 |
| Class 12 | 339.33 | 343.40 | 355.72 | 363.31 | 391.89 | 388.68 | 407.11 | 424.24 | 454.65 | 481.84 |
| Class 13 | - | - | - | - | - | - | 322.15 | 337.79 | 360.05 | 388.19 |
| Ave Mill All | 351.71 | 357.21 | 368.06 | 372.40 | 400.09 | 404.62 | 431.26 | 451.44 | 481.10 | 509.62 |
| Combined | | | | | | | | | | |
| Class 7, 9, 13 | 287.86 | 291.95 | 300.01 | 307.65 | 332.04 | 336.68 | 373.83 | 386.48 | 412.84 | 446.85 |

Montana Property Tax – Portion Of Market Value By Broad Property Class For Tax

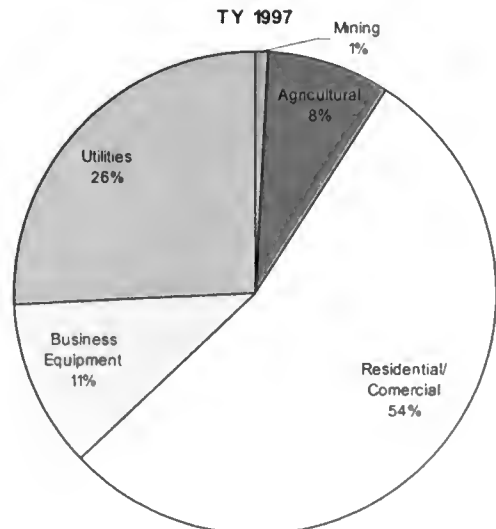
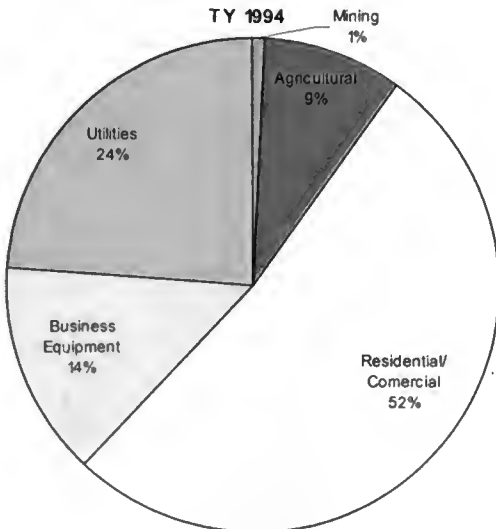
Market



Taxable

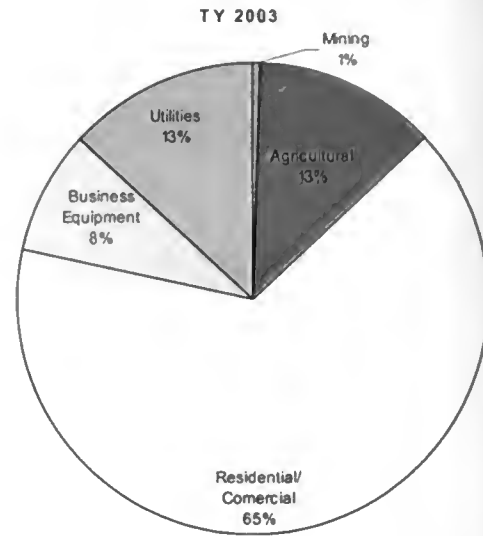
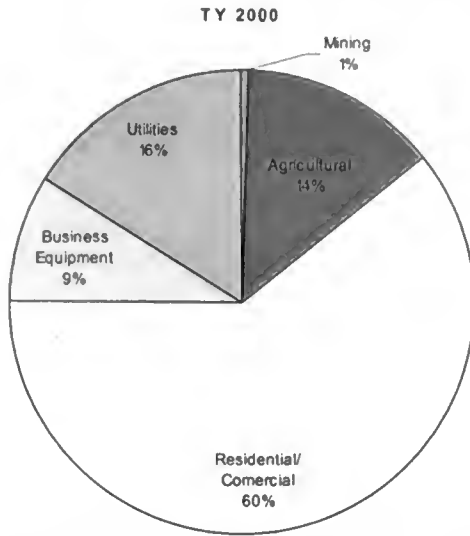


Taxable

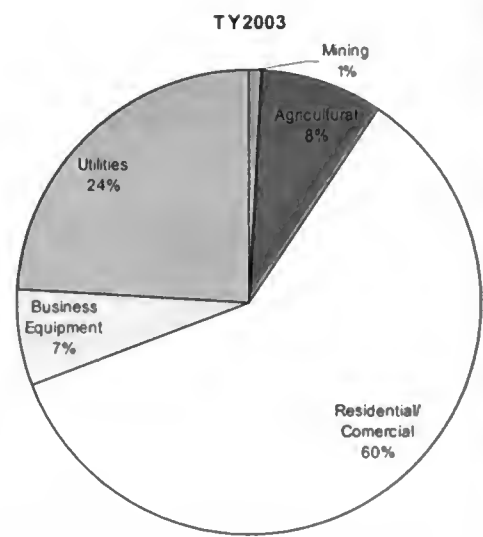
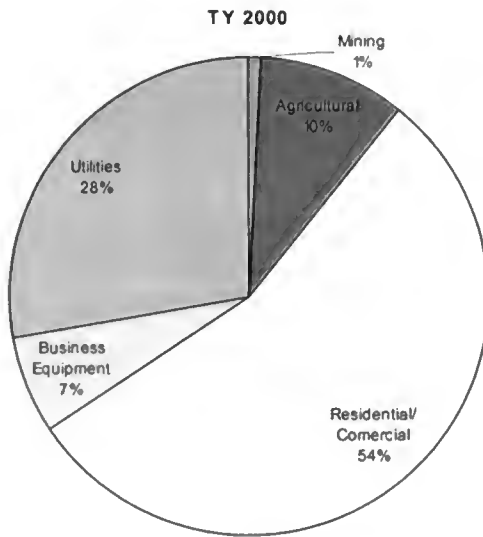


Value, Taxable Value, and Property Taxes Levied x Years 1994,1997, 2000, and 2003

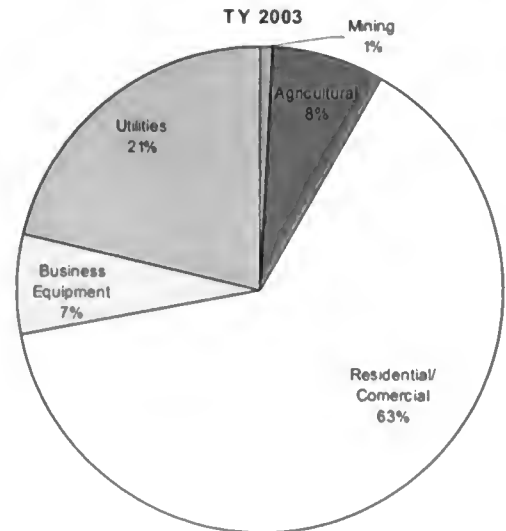
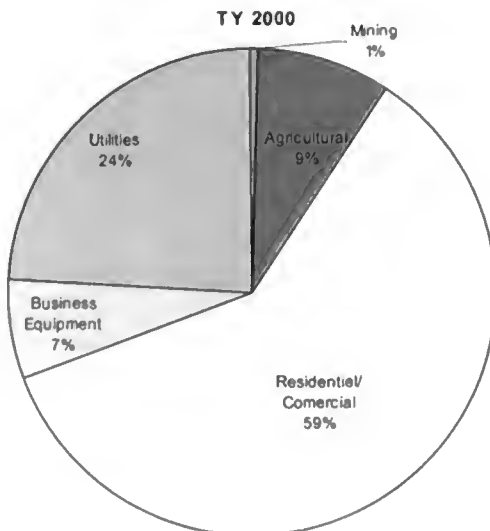
et Value



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ADDENDUM H



| | | 2003 EXTENDED PROPERTY TAX ASSISTANCE PROGRAM | | | | | |
|----------|---------------|---|---|-------------------|---|--|----------------------------------|
| Region # | | Number of Applications Mailed | Number of Applications Returned and Processed | % of Total Mailed | Number of Applications Denied EPTAP Benefit | Number of Applications Granted EPTAP Benefit | % of Total Granted EPTAP Benefit |
| County # | County | | | | | | |
| 1 | | | | | | | |
| 7 | Flathead | 1386 | 492 | 35% | 226 | 266 | 19% |
| 15 | Lake | 953 | 344 | 36% | 177 | 167 | 18% |
| 35 | Sanders | 29 | 15 | 52% | 9 | 6 | 21% |
| 56 | Lincoln | 41 | 22 | 54% | 11 | 11 | 27% |
| 2 | | | | | | | |
| 2 | Cascade | 387 | 157 | 41% | 62 | 95 | 25% |
| 8 | Fergus | 126 | 50 | 40% | 12 | 38 | 30% |
| 12 | Hill | 27 | 12 | 44% | 6 | 6 | 22% |
| 19 | Chouteau | 15 | 7 | 47% | 5 | 2 | 13% |
| 21 | Toole | 8 | 2 | 25% | 2 | 0 | 0% |
| 24 | Blaine | 141 | 53 | 38% | 12 | 41 | 29% |
| 26 | Pondera | 2 | 0 | 0% | 0 | 0 | 0% |
| 31 | Teton | 27 | 10 | 37% | 2 | 8 | 30% |
| 36 | Judith Basin | 10 | 1 | 10% | 0 | 1 | 10% |
| 38 | Glacier | 14 | 5 | 36% | 2 | 3 | 21% |
| 48 | Liberty | 1 | 0 | 0% | 0 | 0 | 0% |
| 3 | | | | | | | |
| 11 | Phillips | 4 | 2 | 50% | 1 | 1 | 25% |
| 16 | Dawson | 13 | 4 | 31% | 1 | 3 | 23% |
| 17 | Roosevelt | 8 | 4 | 50% | 4 | 0 | 0% |
| 20 | Valley | 5 | 1 | 20% | 1 | 0 | 0% |
| 27 | Richland | 5 | 1 | 20% | 1 | 0 | 0% |
| 34 | Sheridan | 9 | 5 | 56% | 4 | 1 | 11% |
| 37 | Daniels | 55 | 21 | 38% | 7 | 14 | 25% |
| 41 | McCone | 2 | 0 | 0% | 0 | 0 | 0% |
| 45 | Prairie | 5 | 2 | 40% | 1 | 1 | 20% |
| 50 | Garfield | 1 | 0 | 0% | 0 | 0 | 0% |
| 52 | Wibaux | 1 | 0 | 0% | 0 | 0 | 0% |
| 55 | Petroleum | 0 | 0 | 0% | 0 | 0 | 0% |
| 4 | | | | | | | |
| 4 | Missoula | 1038 | 426 | 41% | 220 | 206 | 20% |
| 5 | Lewis & Clark | 774 | 314 | 41% | 145 | 169 | 22% |
| 13 | Ravalli | 306 | 110 | 36% | 48 | 62 | 20% |
| 28 | Powell | 86 | 37 | 43% | 8 | 29 | 34% |
| 46 | Granite | 42 | 18 | 43% | 6 | 12 | 29% |
| 54 | Mineral | 41 | 27 | 66% | 7 | 20 | 49% |
| 5 | | | | | | | |
| 1 | Silver Bow | 56 | 23 | 41% | 10 | 13 | 23% |
| 6 | Gallatin | 2261 | 866 | 38% | 441 | 425 | 19% |
| 18 | Beaverhead | 51 | 20 | 39% | 10 | 10 | 20% |
| 25 | Madison | 540 | 66 | 12% | 33 | 33 | 6% |
| 30 | Deer Lodge | 117 | 55 | 47% | 16 | 39 | 33% |
| 43 | Broadwater | 3 | 2 | 67% | 1 | 1 | 33% |
| 47 | Meagher | 36 | 16 | 44% | 1 | 15 | 42% |
| 49 | Park | 221 | 84 | 38% | 35 | 49 | 22% |
| 51 | Jefferson | 19 | 4 | 21% | 2 | 2 | 11% |
| 6 | | | | | | | |
| 3 | Yellowstone | 831 | 312 | 38% | 174 | 138 | 17% |
| 9 | Powder River | 8 | 4 | 50% | 3 | 1 | 13% |
| 10 | Carbon | 80 | 24 | 30% | 10 | 14 | 18% |
| 14 | Custer | 50 | 16 | 32% | 8 | 8 | 16% |
| 22 | Big Horn | 1 | 0 | 0% | 0 | 0 | 0% |
| 23 | Mussellshell | 44 | 25 | 57% | 4 | 21 | 48% |
| 29 | Rosebud | 0 | 0 | 0% | 0 | 0 | 0% |
| 32 | Stillwater | 74 | 24 | 32% | 7 | 17 | 23% |
| 33 | Treasure | 0 | 0 | 0% | 0 | 0 | 0% |
| 39 | Fallon | 1 | 0 | 0% | 0 | 0 | 0% |
| 40 | Sweet Grass | 84 | 31 | 37% | 7 | 24 | 29% |
| 42 | Carter | 1 | 1 | 100% | 0 | 1 | 100% |
| 44 | Wheatland | 5 | 2 | 40% | 1 | 1 | 20% |
| 53 | Golden Valley | 1 | 1 | 100% | 0 | 1 | 100% |
| | TOTALS | 10046 | 3718 | 37% | 1743 | 1975 | 20% |

| 2004 EXTENDED PROPERTY TAX ASSISTANCE PROGRAM | | | | | | | |
|---|---------------|-------------------------------|---|-------------------|---|--|----------------------------------|
| Region # | County | Number of Applications Mailed | Number of Applications Returned and Processed | % of Total Mailed | Number of Applications Denied EPTAP Benefit | Number of Applications Granted EPTAP Benefit | % of Total Granted EPTAP Benefit |
| County # | | | | | | | |
| 1 | | | | | | | |
| 7 | Flathead | 1230 | 291 | 24% | 103 | 188 | 15% |
| 15 | Lake | 706 | 164 | 23% | 56 | 108 | 15% |
| 35 | Sanders | 20 | 5 | 25% | 1 | 4 | 20% |
| 56 | Lincoln | 35 | 12 | 34% | 3 | 9 | 26% |
| 2 | | | | | | | |
| 2 | Cascade | 370 | 117 | 32% | 44 | 73 | 20% |
| 8 | Fergus | 123 | 28 | 23% | 8 | 20 | 16% |
| 12 | Hill | 25 | 5 | 20% | 1 | 4 | 16% |
| 19 | Chouteau | 15 | 4 | 27% | 1 | 3 | 20% |
| 21 | Toole | 6 | 2 | 33% | 1 | 1 | 17% |
| 24 | Blaine | 138 | 40 | 29% | 11 | 29 | 21% |
| 26 | Pondera | 1 | 0 | 0% | 0 | 0 | 0% |
| 31 | Teton | 25 | 7 | 28% | 0 | 7 | 28% |
| 36 | Judith Basin | 10 | 1 | 10% | 0 | 1 | 10% |
| 38 | Glacier | 12 | 4 | 33% | 1 | 3 | 25% |
| 48 | Liberty | 1 | 0 | 0% | 0 | 0 | 0% |
| 3 | | | | | | | |
| 11 | Phillips | 3 | 1 | 33% | 0 | 1 | 33% |
| 16 | Dawson | 11 | 0 | 0% | 0 | 0 | 0% |
| 17 | Roosevelt | 2 | 1 | 50% | 0 | 1 | 50% |
| 20 | Valley | 5 | 0 | 0% | 0 | 0 | 0% |
| 27 | Richland | 5 | 3 | 60% | 2 | 1 | 20% |
| 34 | Sheridan | 7 | 1 | 14% | 1 | 0 | 0% |
| 37 | Daniels | 52 | 23 | 44% | 8 | 15 | 29% |
| 41 | McCone | 1 | 0 | 0% | 0 | 0 | 0% |
| 45 | Prairie | 5 | 1 | 20% | 0 | 1 | 20% |
| 50 | Garfield | 1 | 0 | 0% | 0 | 0 | 0% |
| 52 | Wibaux | 1 | 1 | 100% | 1 | 0 | 0% |
| 55 | Petroleum | 0 | 0 | 0% | 0 | 0 | 0% |
| 4 | | | | | | | |
| 4 | Missoula | 891 | 225 | 25% | 90 | 135 | 15% |
| 5 | Lewis & Clark | 568 | 164 | 29% | 52 | 112 | 20% |
| 13 | Ravalli | 264 | 55 | 21% | 19 | 36 | 14% |
| 28 | Powell | 84 | 25 | 30% | 4 | 21 | 25% |
| 46 | Granite | 41 | 11 | 27% | 2 | 9 | 22% |
| 54 | Mineral | 36 | 15 | 42% | 4 | 11 | 31% |
| 5 | | | | | | | |
| 1 | Silver Bow | 50 | 13 | 26% | 6 | 7 | 14% |
| 6 | Gallatin | 2030 | 447 | 22% | 172 | 275 | 14% |
| 18 | Beaverhead | 46 | 9 | 20% | 2 | 7 | 15% |
| 25 | Madison | 501 | 37 | 7% | 13 | 24 | 5% |
| 30 | Deer Lodge | 116 | 35 | 30% | 10 | 25 | 22% |
| 43 | Broadwater | 1 | 1 | 100% | 0 | 1 | 100% |
| 47 | Meagher | 36 | 17 | 47% | 7 | 10 | 28% |
| 49 | Park | 212 | 55 | 26% | 20 | 35 | 17% |
| 51 | Jefferson | 17 | 3 | 18% | 2 | 1 | 6% |
| 6 | | | | | | | |
| 3 | Yellowstone | 808 | 173 | 21% | 68 | 105 | 13% |
| 9 | Powder River | 8 | 1 | 13% | 0 | 1 | 13% |
| 10 | Carbon | 61 | 16 | 26% | 7 | 9 | 15% |
| 14 | Custer | 48 | 7 | 15% | 3 | 4 | 8% |
| 22 | Big Horn | 1 | 0 | 0% | 0 | 0 | 0% |
| 23 | Mussellshell | 43 | 12 | 28% | 0 | 12 | 28% |
| 29 | Rosebud | 0 | 0 | 0% | 0 | 0 | 0% |
| 32 | Stillwater | 69 | 23 | 33% | 6 | 17 | 25% |
| 33 | Treasure | 0 | 0 | 0% | 0 | 0 | 0% |
| 39 | Fallon | 1 | 0 | 0% | 0 | 0 | 0% |
| 40 | Sweet Grass | 83 | 19 | 23% | 4 | 15 | 18% |
| 42 | Carter | 1 | 1 | 100% | 0 | 1 | 100% |
| 44 | Wheatland | 5 | 1 | 20% | 0 | 1 | 20% |
| 53 | Golden Valley | 1 | 0 | 0% | 0 | 0 | 0% |
| | TOTALS | 8832 | 2076 | 24% | 733 | 1343 | 15% |

ADDENDUM I



**Sales and Property Tax Collections as a Percent of Total State and Local Government Tax Collections
and State and Local Government Share of Total Property Tax Collections**
Fiscal Year 2000 (\$ millions)

| State | Total Tax Collections | SALES TAX COLLECTIONS | | PROPERTY TAX COLLECTIONS | | | | | |
|----------------------|-----------------------|-------------------------------|------------------------|--------------------------|------------------------|-------------------|-------------------------|-------------|------------------|
| | | General Sales Tax Collections | % of Total Collections | Total | % of Total Collections | State Collections | Local Govt. Collections | State Share | Loc. Govt. Share |
| Alabama | 9,415,089 | 2,868,357 | 30% | 1,340,152 | 14% | 179,828 | 1,160,324 | 13% | 87% |
| Alaska | 2,311,801 | 106,864 | 5% | 761,244 | 33% | 44,608 | 716,636 | 6% | 94% |
| Arizona | 13,333,612 | 4,853,286 | 36% | 3,905,594 | 29% | 296,706 | 3,608,888 | 8% | 92% |
| Arkansas | 5,961,335 | 2,199,195 | 37% | 965,665 | 16% | 481,893 | 483,772 | 50% | 50% |
| California | 120,067,581 | 30,439,691 | 25% | 26,235,331 | 22% | 3,330,868 | 22,904,463 | 13% | 87% |
| Colorado | 13,216,188 | 3,775,214 | 29% | 3,679,814 | 28% | - | 3,679,814 | 0% | 100% |
| Connecticut | 15,651,070 | 3,419,939 | 22% | 5,407,465 | 35% | - | 5,407,465 | 0% | 100% |
| Delaware | 2,618,628 | - | 0% | 382,491 | 15% | - | 382,491 | 0% | 100% |
| District of Columbia | 3,215,766 | 640,212 | 20% | 692,781 | 22% | - | 692,781 | 0% | 100% |
| Florida | 41,936,682 | 15,556,791 | 37% | 14,098,490 | 34% | 762,653 | 13,335,837 | 5% | 95% |
| Georgia | 23,253,547 | 7,531,299 | 32% | 5,931,692 | 26% | 48,147 | 5,883,545 | 1% | 99% |
| Hawaii | 4,101,617 | 1,536,276 | 37% | 602,626 | 15% | - | 602,626 | 0% | 100% |
| Idaho | 3,294,239 | 747,134 | 23% | 867,068 | 26% | - | 867,068 | 0% | 100% |
| Illinois | 40,256,016 | 7,275,592 | 18% | 14,511,114 | 36% | 54,452 | 14,456,662 | 0% | 100% |
| Indiana | 16,363,430 | 3,579,416 | 22% | 5,551,586 | 34% | 3,739 | 5,547,847 | 0% | 100% |
| Iowa | 8,090,525 | 1,893,062 | 23% | 2,599,313 | 32% | - | 2,599,313 | 0% | 100% |
| Kansas | 7,616,353 | 2,211,216 | 29% | 2,173,302 | 29% | 48,601 | 2,124,701 | 2% | 98% |
| Kentucky | 10,172,414 | 2,171,723 | 21% | 1,721,607 | 17% | 388,727 | 1,332,880 | 23% | 77% |
| Louisiana | 10,887,408 | 4,324,388 | 40% | 1,742,297 | 16% | 24,900 | 1,717,397 | 1% | 99% |
| Maine | 4,262,142 | 847,358 | 20% | 1,598,490 | 38% | 30,550 | 1,567,940 | 2% | 98% |
| Maryland | 18,289,881 | 2,498,184 | 14% | 4,809,286 | 26% | 256,027 | 4,553,259 | 5% | 95% |
| Massachusetts | 24,042,067 | 3,565,267 | 15% | 7,642,521 | 32% | 151 | 7,642,370 | 0% | 100% |
| Michigan | 31,474,162 | 7,666,399 | 24% | 9,498,688 | 30% | 1,702,501 | 7,796,187 | 18% | 82% |
| Minnesota | 18,172,885 | 3,757,366 | 21% | 4,565,073 | 25% | 9,411 | 4,555,662 | 0% | 100% |
| Mississippi | 6,299,396 | 2,333,384 | 37% | 1,462,014 | 23% | 1,378 | 1,460,636 | 0% | 100% |
| Missouri | 14,313,873 | 4,107,718 | 29% | 3,404,879 | 24% | 18,430 | 3,386,449 | 1% | 99% |
| Montana | 2,131,839 | - | 0% | 907,995 | 43% | 218,883 | 689,112 | 24% | 76% |
| Nebraska | 4,972,968 | 1,216,962 | 24% | 1,548,923 | 31% | 4,363 | 1,544,560 | 0% | 100% |
| Nevada | 5,824,824 | 2,061,496 | 35% | 1,437,281 | 25% | 92,743 | 1,344,538 | 6% | 94% |
| New Hampshire | 3,278,375 | - | 0% | 2,027,817 | 62% | 473,711 | 1,554,106 | 23% | 77% |
| New Jersey | 32,837,939 | 5,508,046 | 17% | 14,448,857 | 44% | 3,039 | 14,445,818 | 0% | 100% |
| New Mexico | 4,800,578 | 1,867,700 | 39% | 620,463 | 13% | 34,877 | 585,586 | 6% | 94% |
| New York | 86,868,188 | 16,473,484 | 19% | 25,201,914 | 29% | - | 25,201,914 | 0% | 100% |
| North Carolina | 21,440,029 | 4,519,995 | 21% | 4,607,461 | 21% | 19 | 4,607,442 | 0% | 100% |
| North Dakota | 1,768,115 | 381,401 | 22% | 527,062 | 30% | 2,486 | 524,576 | 0% | 100% |
| Ohio | 34,238,674 | 7,431,610 | 22% | 9,544,118 | 28% | 22,615 | 9,521,503 | 0% | 100% |
| Oklahoma | 8,251,421 | 2,403,829 | 29% | 1,302,616 | 16% | - | 1,302,616 | 0% | 100% |
| Oregon | 9,411,783 | - | 0% | 2,788,611 | 30% | 106 | 2,788,505 | 0% | 100% |
| Pennsylvania | 36,581,020 | 7,220,639 | 20% | 10,066,526 | 28% | 117,436 | 9,949,090 | 1% | 99% |
| Rhode Island | 3,412,355 | 621,066 | 18% | 1,359,523 | 40% | 948 | 1,358,575 | 0% | 100% |
| South Carolina | 9,542,914 | 2,557,733 | 27% | 2,680,143 | 28% | 12,663 | 2,667,480 | 0% | 100% |
| South Dakota | 1,735,628 | 627,225 | 36% | 632,374 | 36% | - | 632,374 | 0% | 100% |
| Tennessee | 12,431,196 | 5,701,043 | 46% | 2,887,113 | 23% | - | 2,887,113 | 0% | 100% |
| Texas | 52,226,535 | 17,348,954 | 33% | 19,817,072 | 38% | - | 19,817,072 | 0% | 100% |
| Utah | 5,873,126 | 1,841,327 | 31% | 1,303,192 | 22% | - | 1,303,192 | 0% | 100% |
| Vermont | 1,875,546 | 215,423 | 11% | 782,200 | 42% | 404,710 | 377,490 | 52% | 48% |
| Virginia | 21,082,951 | 3,214,162 | 15% | 5,985,891 | 28% | 34,075 | 5,951,816 | 1% | 99% |
| Washington | 18,733,865 | 8,918,781 | 48% | 5,492,563 | 29% | 1,697,689 | 3,794,874 | 31% | 69% |
| West Virginia | 4,362,304 | 917,050 | 21% | 855,120 | 20% | 3,537 | 851,583 | 0% | 100% |
| Wisconsin | 18,546,574 | 3,695,182 | 20% | 5,689,395 | 31% | 87,155 | 5,602,240 | 2% | 98% |
| Wyoming | 1,504,660 | 463,975 | 31% | 512,791 | 34% | 101,396 | 411,395 | 20% | 80% |
| All States | 872,351,114 | 215,112,414 | 25% | 249,177,604 | 29% | 10,996,021 | 238,181,583 | 4% | 96% |

ADDENDUM J



Reverse Annuity Mortgage Loan Program

The Montana Board of Housing in the Department of Commerce was authorized by legislation in the 1989 session to establish a Reverse Annuity Mortgage Loan Program (RAM). A reverse annuity mortgage is a loan that allows lower-income elderly Montana citizens to convert the equity in their homes into an additional monthly income source. The homeowner may receive a loan in an amount up to 80% of the Federal Housing Administration's estimated value of the home. The loan amounts may range from a minimum of \$15,000 to a maximum of \$100,000.

In cooperation with the Office on Aging, the Montana Board of Housing has set aside funds to make reverse annuity mortgage loans. The purpose of the reverse annuity mortgage loan program is to enable senior Montana homeowners to provide more substantially for their own in-home support.

Eligible Property

In order for the property to be eligible for the loan it must be located in Montana. The borrower (s) must be the owner and occupant of a single family dwelling that is unencumbered by any prior mortgage, lien or pledge. A single-family dwelling means a one-to-four family living unit. Mobile homes are excluded, although some exceptions may apply.

Eligible Applicants

To be eligible, a homeowner must be 68 years or older, have an annual family income not exceeding the Montana Board of Housing reverse annuity mortgage loan income limits, own a home that is eligible and have completed the reverse annuity mortgage loan program counseling program. Some exceptions may be considered. The homeowner may continue to have full-time or part-time employment as long as he or she does not exceed the income limit at the time of the loan closing. If the homeowner is married, the spouse must also be 68 years old or older, must be a co-applicant on the loan application and be a joint owner of the property with a right of survivorship.

Effect of the Program

The application process requires potential borrowers to first complete a reverse annuity mortgage-counseling program. The loan application may be completed during the counseling program, with the assistance of the Montana Aging Services Network counselor.

The annual family income must not exceed the following: \$17,960 for a one-person household; \$24,240 for a two-person household and \$30,520 for a three or more person household.

Monthly payments are made to the homeowner for a ten-year period. The payments stop when the owner no longer occupies the property or when the loan is paid off. There are no prepayment penalties. Monthly payments received by the homeowner are non-taxable income.

The homeowner may choose to receive an amount up to \$2,500 for purposes such as: paying off liens (small mortgage balances, back taxes, etc.); repairs or improvements to the home; medical expenses; and paying outstanding bills. Some exceptions to the amount may be considered.

In addition to a \$2,500 lump sum advance, the homeowner may elect an advance to cover certain loan closing costs.

Generally, the loan will be repaid from the proceeds of the sale of the home upon the death of the last surviving borrower residing in the home or upon the permanent vacating of the home by the borrower(s). The home is typically construed as being permanently vacated when the owner had not lived in the home for more than 180 consecutive days.

Program Participation

The Reverse Annuity Mortgage Loan Program has granted a total of 94 loans since the inception of the program, of the 94 loans 41 loans have been prepaid.

Reverse Annuity Mortgage Loan – Privately Administered

Montana is the only "state administered program" in the nation, the remaining states administer this type of program privately.

Two of the most common types of reverse mortgage programs are: the FHA Home Equity Conversion Mortgage Program (HECM) and The Home Keeper. The FHA Home Equity Conversion Mortgage, a federally insured reverse mortgage is the most popular. Fannie Mae developed The Home Keeper reverse mortgage in the mid 1990's.

The eligibility requirements for a Home Equity Conversion Mortgage and The Home Keeper are very similar.

Eligible Property

Eligible home types include single-family homes, manufactured homes built after June 1976, condominiums, and townhomes. The property must be owned free and clear or have a very low mortgage debt.

Eligible Applicants

To be eligible, a homeowner must be 62 years or older. There is no income limit to qualify for the program.

Effect of the Program

The application process requires potential borrowers to first complete a reverse annuity mortgage-counseling program.

Lenders base the loan amount on three factors: the age of the borrower(s), the number of borrowers, and the appraised value of the home for Home Keeper mortgages or the maximum claim amount for the Home Equity Conversion Mortgage.

Borrowers can choose to receive the proceeds from the loan as (1) lump sum, (2) fixed monthly payments, (3) a line of credit, or (4) a combination of these. There are no prepayment penalties. The loan payments received by the homeowner are non-taxable income.

The borrower is not required to make any mortgage payments to the lender during the life of the loan. The loan becomes repayable, in full, when the sole remaining borrower dies or no longer occupies the home as his or her principal residence. The repayment obligation is equal to the sum of the total funds received by the borrower, interest, and any closing costs and other charges financed as part of the loan.

The borrower or borrower's estate may pay off the loan and keep the home. If not, the lender is repaid when the home is sold. If the proceeds are less than the amount owed, FHA absorbs the shortfall and makes an insurance claim payment to the lender.

Property Tax Deferral Programs

Property tax deferral programs allow low-income elderly homeowners to defer payment of property taxes. Deferral programs are available to homeowners in 24 states and the District of Columbia, although in six of these states the programs are offered at the option of local governments. Table 1 provides details about deferral programs.

| Table 1. Property Tax Deferral Programs | | | |
|--|------------------|-------------------|--|
| State / Jurisdiction | Age Limit | Income Cap | Description |
| Arizona | 70 and over | \$10,000 | Deferral of property taxes on primary residences valued at \$150,000 or less. |
| California | 62 and over | \$24,000 | Residential homeowners may postpone payment of property taxes until death, sale of the residence, or cessation of occupancy. |
| Colorado | 65 and over | None | People age 65 or older may defer their previous year's realty taxes. Local option to permit taxpayer to work off tax liability. |
| District of Columbia | None | None | Qualified owners of residential realty may apply for deferral each year if residential realty tax owed is in excess of 110% of the preceding year's tax. |
| Florida | None | None | The amount deferred is that portion of taxes exceeding 5% of the applicant's household income. |
| | 65 and over | \$10,000 | Deferral of all of homestead. (People entitled to the increased homestead exemption may defer that portion of the taxes that exceeds 3% of the applicant's household income.) Interest is imposed on the amount of taxes deferred. |
| | 70 and over | \$12,000 | Deferral of all of homestead. (People entitled to the increased homestead exemption may defer that portion of the taxes that exceeds 3% of the applicant's household income.) Interest is imposed on the amount of taxes deferred. |

| State / Jurisdiction | Age Limit | Income Cap | Description |
|----------------------|-------------|--|---|
| Georgia | 62 and over | \$15,000 | If the homestead for which a deferral is requested has an assessed value of \$50,000 or more, the deferral applies only to the taxes on the portion of the assessed value that is \$50,000 or less. The total amount of deferred taxes may not exceed 85% of the homestead's value. |
| Illinois | 65 and over | \$30,000 | Deferral of the full amount. |
| Iowa | | | Recipients of federal Supplemental Security Income (SSI) may suspend property tax payments until property is sold. |
| Maine | 65 and over | \$32,000 | Deferral of the full amount. |
| Maryland | 65 and over | Local limits | Local option: counties and cities may defer realty taxes. |
| Massachusetts | 65 and over | \$20,000 (\$40,000 if adopted by a municipality) | Deferral of the full amount. |
| Michigan | 62 and over | \$10,000 as indexed for inflation | Collection of special assessments on homestead properties of not less than \$300 may be deferred. |
| | 62 and over | \$25,000 | Full deferment of the payment of summer property taxes on homestead property. |
| Minnesota | 65 and over | \$60,000 | The maximum deferred amount is 75% of the estimated market value of the home. Also affecting the amount of the deferral is a maximum payment amount, which is 3% of the applicant's prior year's household income. |
| New Hampshire | 65 and over | None | Local option tax deferral may be granted annually for all or part of the taxes due, plus annual interest at 5%. The total tax deferrals on a particular property may not be more than 85% of its equity. |
| North Dakota | 65 and over | \$14,000 | Deferral applies to all special assessments. |
| Oregon | 62 and over | \$32,000 | Deferral applies to all property taxes and special assessments. |

| State / Jurisdiction | Age Limit | Income Cap | Description |
|----------------------|-------------|--|---|
| Pennsylvania | None | \$15,000 | Local option to defer property tax increases. A deferral may not be granted if the amount of the deferred taxes, the liens on the residence, and the principal remaining on the taxpayer's mortgages for the residence is greater than 85% of the residence's market value. A deferral also will be denied if the outstanding principal on all mortgages is more than 70% of the residences market value. |
| South Dakota | 70 and over | \$16,000 / \$20,000 | Deferral applies to all taxes due if the person has owned the dwelling for at least three years and has been a state resident for at least five years. |
| Tennessee | 65 and over | \$12,000 (option to raise to \$25,000) | Local option to defer payment of property taxes. The deferral applies to no more than \$60,000 of the value (local option to remove this limit.) In addition, local governments may defer all taxes above 1979 levels if the homestead is less than \$50,000. Deferred taxes are subject to a 10% interest rate. |
| Texas | 65 and over | None | The deferral is for all delinquent property taxes. Interest is added at the rate of 8% per year. Any penalty and interest that was due on the tax bill for the home before the tax deferral will remain on the property and also become due when the tax deferral ends. |
| Utah | 65 and over | Up to county | Local option to defer taxes for the elderly and low-income homeowners. |
| Virginia | 65 and over | \$50,000 | Local option to provide a deferral of realty taxes if combined net worth, excluding the value of the dwelling and lot is not over \$75,000. Specific counties, cities, and towns may raise the maximum total combined income. |
| Washington | 60 and over | \$34,000 | Deferral applies to 80% of the equity value in the home. |
| Wisconsin | 65 and over | \$20,000 | Loans to pay property taxes are available as a property tax deferral. The maximum loan is \$2,500 annually or the amount of property tax. The total loan, with interest, is repaid from the sale of the property. |
| Wyoming | 62 and over | 150% of federal poverty level | Deferral applies to payment of up to one-half of real property taxes owed on the person's principal residence if it is located on not more than 40 acres of land. The deferral is also available to any owner of residential real property who purchased the property before Dec. 31, 1987. |

Source: NCSL, updated using Commerce Clearing House, State Tax Guide 2002; NCSL calls to state legislative fiscal offices

Deferred property taxes become a lien against the value of the taxpayer's home. When the taxpayer sells the home, back taxes plus interest become due. If the homeowner dies, deferred taxes must be paid when the estate is settled.

Some states allow for the deferral of all taxes due; the other states defer a portion of the tax due or use deferral programs to ensure that property tax bills do not grow by more than a set percentage. Deferral programs are the most targeted, cost effective method of alleviating the concern that elderly homeowners might lose their homes because they cannot afford taxes. Cash-poor but asset-rich older Americans can use the value of their home to keep property taxes at an affordable percentage of their income. Florida's program, for example, ensures that property taxes do not exceed 3 percent of senior citizens' income.

Deferral programs produce a short-term loss of local revenue-or in some cases; state revenue-because the state may reimburse local governments for deferred taxes. However, deferral programs cost less in terms of lost revenue than homestead exemptions or circuit breaker programs because participation rates generally are low. Anecdotal reports from states with deferral programs reveal that many elderly homeowners are reluctant to have a lien placed against their home.

ADDENDUM K





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TO: Joint Meeting of Tax Reform Study Committee and Property Tax Reappraisal Study Committee

FROM: Greg Petesch, Director, Legal Services, and Lee Heiman, Staff Attorney

DATE: January 12, 2004

CONSTITUTIONAL PROPERTY TAX PARAMETERS

The Montana Constitution establishes the limits on legislative authority for legislative action. The general rule is that the Constitution is a limit and not a grant of legislative authority. State ex rel. Evans v. Stewart, 53 Mont. 18, 161 P. 309 (1916).

Sections 1 through 5 and 7 of Article VIII of the Montana Constitution establish the framework within which the Montana property tax system must function. In the following portion of this paper, each pertinent section of Article VIII of the Montana Constitution will be followed by a general discussion with references to appropriate decisions..

Section 1. Tax purposes. Taxes shall be levied by general laws for public purposes.

The requirement that taxes be levied by general laws is essentially a restatement of the requirement for all laws contained in Article V, section 12, of the Montana Constitution. That section provides that the Legislature may not pass a special or local law when a general law can be made applicable.

In Grossman v. State, 209 Mont. 427, 682 P.2d 1319 (1984), the Montana Supreme Court reviewed the plan of using coal severance tax income to service bonds for loans to local governments for water systems and determined that the plan affected the inhabitants of the particular areas as communities and not merely as individuals. The Court noted that the Legislature could not draft a general act of statewide application providing for the issuance and sale of revenue bonds and at the same time keep a handle on the way the proceeds were spent or loaned except through the direct authorization of projects. The Court determined that because no

class of governmental entity was excluded, the law was "general" legislation within the meaning of the Montana Constitution.

The Grossman Court also held that the question of whether a particular purpose for which taxes may be levied and collected is a public purpose is for the Legislature to decide in the first instance, and the courts will indulge every reasonable presumption in favor of the legislative decision. The use of the loan proceeds was clearly for public purposes.

However, the use of in-state investment fund money derived from taxation to guarantee loans or bonds of private individuals or private entities, either directly or through the capital reserve account or through the economic development guaranty fund, was found not to be a public purpose in Hollow v. State, 222 Mont. 478, 723 P.2d 227, (1986).

The words "public purposes" were found to be synonymous with "governmental purposes" in State ex rel. Mills v. Dixon, 66 Mont. 76, 213 P. 227 (1923). While courts are generally deferential to legislatures in the area of determining public purpose, the Hollow case indicates that the Montana Supreme Court will carefully scrutinize the legislative determination of what constitutes a public purpose.

Section 2. Tax power inalienable. The power to tax shall never be surrendered, suspended, or contracted away.

This section essentially states that the power to tax is a fundamental governmental power.

After the Legislature enacted Chapter 823, Laws of 1991, to tax retirement pension benefits that had previously been untaxed, the retirees sued, claiming that they had a contractual right to a continued exemption from taxation. The Supreme Court held that the former tax exemption was only a policy statement that could be changed by the Legislature and that the Legislature did not clearly manifest an intention in the law in question to create a private contractual right. Additionally, the Supreme Court held that the state was prohibited by this section from promising any group of taxpayers that it would never tax them. Sheehy v. Public Employees Retirement Division, 262 Mont. 129, 864 P.2d 762 (1993).

This section was also interpreted in light of the referendum to suspend the income tax increase that would have resulted from the defeat of the sales tax. After enough petition signatures had been gathered on an income tax increase passed by the Legislature to suspend the increase and refer it to the people for a vote, a suit was filed, claiming that the suspension of the law constituted a surrender of the legislative power of taxation. The Supreme Court held that it would not apply case law from other states cited by the plaintiffs and that the referendum simply resulted in the suspension of one law by which the taxing power was exercised. The Court also

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noted that in any event, as pointed out by the District Court, the state was still collecting taxes and would continue to do so no matter which law was ultimately effective after the vote of the people. Nicholson v. Cooney, 265 Mont. 406, 877 P.2d 486 (1994).

Section 3. Property tax administration. The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.

This section is the crux of the property tax system in Montana and has been the subject of most of the litigation concerning property taxes. The 1972 Montana Constitution revised Article XII, section 15, of the 1889 Montana Constitution by removing references to county boards of equalization and the state board of equalization. These changes left the Legislature free to determine the method of securing property tax administration. Chapter 405, Laws of 1973, transferred the powers and duties of the State Board of Equalization to the Department of Revenue and the State Tax Appeal Board. In Department of Revenue v. Burlington Northern, Inc., 169 Mont. 202, 545 P.2d 1083 (1976), the Montana Supreme Court held that State Board of Equalization's administrative functions were transferred to the Department of Revenue, while the appellate functions were transferred to the State Tax Appeal Board.

Article VIII, section 3, of the Montana Constitution has several component parts, all of which are critical to any system of property taxation. The first requirement imposes a duty on the state to administer the property tax system. This change of duty was referred to in the statement of intent attached to Chapter 27, Special Laws of 1993. It stated that with the adoption of the 1972 Montana Constitution, the state assumed responsibility for the appraisal, assessment, and valuation of property for property tax administration. Although the state was granted this new responsibility and authority by the Constitution, county assessors were retained by local governments to assist the state in the assessment function, acting as agents of the Department of Revenue. After the enactment of Chapter 27, Special Laws of 1993, all appraisal and assessment duties relating to property taxation were assigned to the Department of Revenue. The responsibility and authority to perform any assessment functions were transferred from the county assessors to the Department of Revenue.

The second requirement of this section is that the state appraise property subject to taxation. Appraisal is the setting of a value for property tax purposes. The appraisal of property is governed by Title 15, chapter 7, MCA. The third requirement of this section is that the state assess property subject to taxation. Assessment is the setting of the estimated value of property for purposes of taxation and the setting of the amount of a tax. The assessment of property is governed by Title 15, chapter 8, MCA. The fourth requirement of this section is that the state

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equalize the valuation of property subject to taxation. These requirements have been the major areas of contention in the property tax arena.

There has been a great deal of litigation over the requirements of this section. It is important to note that appraised value and assessed value are synonymous under Montana law. See section 15-8-111, MCA.

Prior to the adoption of the 1972 Montana Constitution, the appraisal, assessment, and taxation of property in Montana was largely in the hands of county officials subject to supervision, appeal, and equalization by the State Board of Equalization. Although property values were by law subject to a continuous process of revision, there was a considerable variation in performance among counties in keeping valuations current. After the adoption of the 1972 Montana Constitution, the Department of Revenue assumed jurisdiction over the property tax system.

In early 1975 the reappraisal of property in Lewis and Clark County was declared unconstitutional as violating equal protection, due process, and uniformity requirements in Larson v. State, 166 Mont. 449, 534 P.2d 854 (1975). The Larson decision was premised on the basis that because there was no statewide plan in place, the county reappraisal would result in a disproportionate tax burden in Lewis and Clark County as compared to the rest of the state.

In 1975, the Legislature enacted Chapter 294, Laws of 1975, requiring the Department to administer and supervise a program for the revaluation of all taxable property in Montana at least every 5 years, including the adoption of a comprehensive written plan of rotation fixing the order of revaluation in each county on the basis of the last revaluation of property in each county. The plan was intended to adjust disparities among counties. The plan was to provide that all property in each county be revalued every 5 years or that 20% of the property in each county be revalued each year. Chapter 294 also required that the same method of appraisal and assessment be used in each county so that at the end of each 5-year cycle, comparable property with similar market values would have substantially equal taxable values. The appraisal plan and its implementing legislation were found constitutional in Patterson v. Department of Revenue, 171 Mont. 168, 557 P.2d 798 (1976). The Patterson Court stated that violation of statutory uniformity requirements generally results in violation of equal protection and due process requirements. The Court noted that all like property was appraised by a uniform standard under the plan according to uniform procedures set forth in the same designated manual. The appraisal rotation was fixed by a uniform rule requiring that property that had gone the longest since appraisal was to be appraised first and that all property was required to be appraised by the end of the 5-year cycle. The

uniform rule for determining the reappraisal rotation and the type and amount of property to be appraised in each year in each county was all that was required to meet uniformity requirements.

The next cycle of revaluation began in 1978 and was scheduled for completion in 1983. The cycle was extended until 1985 by the 1981 Legislature. During the cycle commencing in 1978, the appraisal of class four property was done pursuant to the valuation guidelines from two appraisal manuals. Residential property was appraised from the 1972 Montana Appraisal Manual, and commercial property was appraised from the 1976 Marshall-Swift Appraisal Manual. The use of the different manuals resulted in valuations that were not always comparable for similar class four property across the state. The Marshall-Swift values tended to be much higher. This use of different manuals generated what became known as the 34% controversy.

A group of taxpayers applied to the Cascade County Tax Appeal Board for a reduction in the valuation of their commercial property. The County Tax Appeal Board denied relief, and the taxpayers appealed to the State Tax Appeal Board. The State Tax Appeal Board ordered the Department of Revenue to reduce all contested valuations by 34%. The Department appealed to the District Court, which affirmed the State Tax Appeal Board. The Department then appealed to the Montana Supreme Court. The Supreme Court determined that the State Tax Appeal Board had the authority to order the reductions. The Court stated that where it is impossible to secure both the standard of the true value of a taxpayer's property and the uniformity and equality in taxation required by law, the latter requirement is to be preferred as the just and ultimate purpose of the law. Therefore, unequal appraisals may be reduced even though they result in an assessment as true market value or 100% of market value as required by section 15-8-111, MCA. Reduction in valuation is required where it is satisfactorily shown that under the system as applied, it is impossible to meet both the true value and equality standards. Department of Revenue v. State Tax Appeal Board, 188 Mont. 244, 613 P.2d 691 (1980). However, the Supreme Court also held that in order to obtain relief on the ground that property is assessed inequitably, it is essential that the taxpayer prove: (1) that there are several other properties within a reasonable area comparable to the taxpayer's; (2) the amount of assessments on these properties; (3) the actual value of the comparable properties; (4) the actual value of the taxpayer's property; (5) the assessment complained of; and (6) that by comparison the taxpayer's property is assessed at a higher proportion of its actual value than are the comparable properties, thereby creating discriminations. These criteria are among those to be used in a comparison of true value to assessed value ratios. Where the criteria were not followed and no ratio comparisons made, the State Tax Appeal Board's blanket reduction of 34% on commercial improvement appraisals was set aside. Department of Revenue v. State Tax Appeal Board, 188 Mont. 244, 613 P.2d 691 (1980), followed in Devoe v. Department of Revenue, 233 Mont. 190,

759 P.2d 991 (1988). The Supreme Court remanded the case to the District Court. The taxpayers renewed their protest, and in 1980, the Cascade County Tax Appeal Board granted several taxpayers a 34% reduction from their 1978 assessed values for the remainder of the

appraisal cycle. The Department of Revenue did not appeal the decision. The Department of Revenue then determined that statewide, the commercial valuations averaged 12% higher than the residential valuations and ordered each county assessor to reduce all commercial valuations by 12%. This resulted in a 22% increase for the Cascade County taxpayers who had been granted the 34% reductions by the State Tax Appeal Board. The taxpayers challenged the Department's action. The Supreme Court held that the Department of Revenue properly assumed the responsibility of solving the problem and in equalizing the valuations. In acting in the manner that it did, the Department was acting under its constitutional mandate and authority to equalize values of taxable property. The 12% reduction did not constitute a reappraisal. The power and duty to equalize included the power to alter appraised values that were set at the beginning of an appraisal cycle. Hanley v. Department of Revenue, 207 Mont. 302, 673 P.2d 1257 (1983).

This solution apparently temporarily ended the appraisal dispute. The next 5-year reappraisal cycle began in 1986. The cycle was to end December 31, 1992, and a new cycle was to commence January 1, 1993. In 1987, the Legislature enacted Chapter 613, Laws of 1987, requiring the Department of Revenue to conduct a sales assessment ratio study for the purpose of annually determining the correct assessment level for similar property located in specific areas of the state. The 1989 Legislature enacted Chapter 636, Laws of 1989, revising the sales assessment ratio study procedures, required the Department of Revenue to publish the results of the studies, and revised the reappraisal plan requirements. The Legislature also extended the reappraisal cycle for 2 years. The Department was directed to partition the state into as many as 100 areas of residential property and as many as 20 areas of commercial property. The areas were to be studied separately. The actual sales prices of real property sold for 3 tax years prior to the study were compared with their appraised values at the time, and a ratio was determined. If the average appraised values of the properties in the study when compared to the average of the actual sales amounts were less than 95% or more than 105%, the assessments within each area were to be adjusted to bring all ratios to the common value of 1. Detailed methods for conducting the studies were contained in the 1989 amendments. The studies were to commence on January 1, 1990, and were to continue for succeeding tax years. Patricia Barron, a resident of Great Falls, had her valuation increased from \$28,019 to \$40,325 based on the sales assessment ratio study for the area. Ms. Barron appealed to the Cascade County Tax Appeal Board contesting the constitutionality of the adjustment. The Board denied the appeal, noting that an error had been found and that the Department of Revenue would correct the valuation. An appeal was taken to the State Tax Appeal Board. The Board determined that equalization of

values had not been achieved. Before the sales assessment ratio study adjustment to values, 40 of the 243 properties were overappraised and 203 were underappraised. After the adjustment, 102 properties were overappraised and 141 were underappraised. The Board noted that even

after a 30% adjustment to the valuation of the Barron property, it was still appraised at only 51% of its purchase price of \$75,000. The Board determined that the Barron property should be assessed at \$75,000. The Board then went on to state that in its opinion, Chapter 636, Laws of 1989, was unconstitutional for failure to achieve equalization of values. The Department of Revenue then commenced an original proceeding in the Supreme Court challenging the State Tax Appeal Board ruling. The Montana Supreme Court held that the sales assessment ratio study formerly contained in section 15-7-111, MCA, offended state constitutional principles. The Court explained that the use of 1990 tax values derived from the stratified sales assessment ratio study and the subsequent application of a percentage factor to certain residential properties, which in 1989 were assessed or appraised at or above their true market values, resulted in unfair discrimination by requiring those property owners to bear a disproportionate share of the state tax burden in violation of the equal protection and due process requirements of both the United States and Montana Constitutions. The Court further found that application of the ratio violated statutory appraisal provisions requiring general and uniform appraisal, assessment, and equalization of all taxable property in the state. The application of the Court's order was prospectively continued to December 31, 1990, to allow collection of 1990 taxes. Department of Revenue v. Barron, 245 Mont. 100, 799 P.2d 533 (1990). Barron was followed in DeVoe v. Department of Revenue, 263 Mont. 100, 866 P.2d 228 (1993).

After the Supreme Court's decision in Barron, the 1991 Legislature enacted Chapter 680, Laws of 1991, amending section 15-7-111, MCA, to require the Department of Revenue to use a stratified sales assessment ratio study to adjust property values in a given district during an appraisal cycle. The legislation also provided for a right to appeal adjusted values and for shorter appraisal cycles. The Department of Revenue divided the state into 48 districts. The sales assessment ratio for the urban Helena area resulted in a 4% adjustment of appraised values. Prior to the adjustment, 39 of the 249 properties sold in the assessment study were overappraised, 162 properties were underappraised, and 48 fell within the 95% to 105% of sales price range. After the adjustment, 58 properties were overappraised, 123 properties were underappraised, and 68 fell within the 95% to 105% of sales price range. When expanded to the entire 20,535 parcels in the district, 49.4% would remain underappraised. Sheehys appealed the tax assessment on their property to the County Tax Appeal Board. The County Tax Appeal Board denied the appeal. Sheehys then appealed to the State Tax Appeal Board. The State Tax Appeal Board ruled in favor of the Sheehys. The Department of Revenue then filed a petition for judicial review. In the meantime, Barron was decided. The District Court affirmed the decision

of the State Tax Appeal Board. The Department appealed to the Supreme Court. The Department contended that the appeal provided for in Chapter 680, Laws of 1991, adequately addressed the Barron decision. The Montana Supreme Court held that even with the changes

made by Chapter 680, Laws of 1991, the stratified sales assessment ratio study adjustment failed to meet constitutional muster. Instead of the 30% factor considered in Barron, the Department was using a 4% factor. The method may have achieved equalization between areas, but did not achieve equalization between individual properties where inequities already existed. The statutes were found to deny equal protection. Department of Revenue v. Sheehy, 262 Mont. 104, 862 P.2d 1181 (1993).

The Department of Revenue had begun the next cycle of revaluation or reappraisal of property in 1987 and completed the cycle on December 31, 1992. As part of the reappraisal plan, the Department for the first time used a computer assisted mass appraisal system. The system uses its files of property assessment data to produce computer-assisted valuations for residential, agricultural, commercial, and industrial property. The system uses three approaches to valuation, the cost approach, the market data approach, and the income approach. The cost approach involves estimating the depreciated cost of reproducing or replacing the building and site improvements. The estimated value of land is added to the depreciated cost. This approach is used where there is lack of market and income data. The market data approach involves the compilation of sales and offerings of property that are comparable to the property being appraised. The sales and offerings are adjusted for dissimilarities and a value range is obtained by the comparison of the properties. The income approach measures the present worth of the future benefits of the property by the capitalization of the net income stream over the remaining economic life of the property. The approach involves making an estimate of the "effective gross income" of a property, derived by deducting the appropriate vacancy and collection losses from its estimated economic rent, as evidenced by the yield of comparable properties. Applicable operating expenses are then deducted, resulting in an estimate of net income that may be capitalized into an indication of value.

In December 1993, a group of taxpayers commenced a class action suit to challenge the constitutionality of the statewide appraisal of residential and commercial property conducted by the Department of Revenue using the computer assisted mass appraisal system. The District Court found for the taxpayers and held that using more than one method of appraisal had resulted in the failure to equalize values as required by Article VIII, section 3, of the Montana Constitution. On appeal, the Montana Supreme Court reversed the decision, finding that perfection in the field of valuation is unattainable. The Supreme Court determined that the use of the market data approach, income approach, cost approach, or some combination of

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approaches was a reasonable attempt to equalize appraisal of real property throughout the state. Albright v. State, 54 St. Rep. 132 (1997). The Court noted that three themes were prevalent in the Constitutional Convention debate concerning Article VIII, section 3, of the Montana

Constitution: (1) equalization between counties; (2) flexibility so that the Legislature would be able define means of taxation; and (3) more than one approach was permissible as a legitimate means of determining value (market data approach and income approach).

The Court distinguished the current valuation system from the nonuniform application of stratified sales assessment ratios (no new appraisal) found invalid in Sheehy and Barron. The Court upheld the valuation system.

The 1997 Legislature then enacted Senate Bill No. 195, as Chapter 463, Laws of 1997. Chapter 463 phases in changes in reappraisal values by 2% a year for residential and commercial land and improvements (class four property), agricultural land (class three property), and forest land (class ten property). Chapter 463, Laws of 1997, also provides for the valuation and phasing in of the value of new construction and reduces the tax rate applied to class three and class four property by 0.022 percentage points each year. The legislation suspends the 1997 tax year statutory deadlines related to property taxation (i.e., appraisals, assessments, reimbursements, taxing unit budgets, and the collection of property taxes). It also delays the next reappraisal cycle for class three, four, and ten property until 2007 and clarifies that all other classes of property must be revalued annually. The legislation revises the property tax limitations under Initiative Measure No. 105 by changing the exceptions to the limitations and by changing the base year from 1986 to 1996 and provides methods for the voters of a taxing unit to approve an increase in property taxes. The legislation also creates a committee to study all aspects of the state property tax system and to make recommendations to the 56th Legislature.

It is our opinion, based upon the analysis of the cited decisions, that Article VIII, section 3, of the Montana Constitution simply requires the state to uniformly administer a method of valuing similar property so that equal valuation is achieved. In Department of Revenue v. State Tax Appeal Board, 188 Mont. 244, 613 P.2d 691 (1980), the Court held that where it is impossible to secure both the standard of the true value of a taxpayer's property and the uniformity and equality in taxation required by law, the latter requirement is to be preferred as the just and ultimate purpose of the law. Therefore, unequal appraisals may be reduced even though they were an assessment at true market value or 100% of market value as required by 15-8-111. Reduction in valuation is required where it is satisfactorily shown that, under the system as applied, it is impossible to meet both the true value and equality standards.

Section 4. Equal valuation. All taxing jurisdictions shall use the assessed valuation of property established by the state.

This section is similar to Article XII, section 5, of the Montana Constitution. It is intended to guarantee that the same assessed values will be used by all taxing authorities.

Section 5. Property tax exemptions. (1) The legislature may exempt from taxation:

(a) Property of the United States, the state, counties, cities, towns, school districts, municipal corporations, and public libraries, but any private interest in such property may be taxed separately.

(b) Institutions of purely public charity, hospitals and places of burial not used or held for private or corporate profit, places for actual religious worship, and property used exclusively for educational purposes.

(c) Any other classes of property.

(2) The legislature may authorize creation of special improvement districts for capital improvements and the maintenance thereof. It may authorize the assessment of charges for such improvements and maintenance against tax exempt property directly benefited thereby.

This section was a substantial revision of the 1889 Montana Constitution. The 1889 Montana Constitution required that property be listed in Article XII, section 2, of the 1889 Montana Constitution in order to be exempt. Under the 1972 Montana Constitution, all exemptions are at the discretion of the Legislature. The section also specifically permits taxation of private interests in government-owned property and the assessment of special improvement district charges on tax-exempt property.

The Court has developed a policy of strict construction of exemptions. Where a church owned land, adjacent to the church, that was used for a church road and recreational activities of church members, the District Court erred, in a quiet title action brought by the church, in denying a tax exemption for the land actually used for the road providing access to the church. However, as there was no direct evidence of the use for church purposes of the other undeveloped property adjacent to the road and church, the Supreme Court strictly construed the tax exemption laws to deny an exemption for the other undeveloped property. Old Fashion Baptist Church v. Department of Revenue, 206 Mont. 451, 671 P.2d 625 (1983).

Exemptions have also played a role in taxing the beneficial use of tax-exempt property.

Investor-owned utility companies used portions of federally owned power lines located in Montana to transmit electrical power to out-of-state users. The companies argued that their interest in the power lines did not give them the right to possession and control and therefore was

not an interest that was subject to a beneficial use tax. The Supreme Court disagreed, stating that what was involved was a private contractual right to use a portion of the transmission capacity of the exempt federal power line. The contract right clearly fit into the state constitutional language establishing that any private interest in property may be taxed separately. Pacific Power & Light Co. v. Department of Revenue, 237 Mont. 77, 773 P.2d 1176 (1989).

Section 7. Tax appeals. The legislature shall provide independent appeal procedures for taxpayer grievances about appraisals, assessments, equalization, and taxes. The legislature shall include a review procedure at the local government unit level.

This section was a new provision in the 1972 Montana Constitution. The Legislature has implemented this section through the County Tax Appeal Board and the State Tax Appeal Board process. County Tax Appeal Board procedures are contained in Title 15, chapter 15, MCA, and State Tax Appeal Board procedures are contained in Title 15, chapter 2, part 3, MCA.

The Legislature determined that the County Tax Appeal Board provides the review procedure at the local government unit level mandated by Article VIII, section 7, of the Montana Constitution. An appeal and review before the local board is a condition precedent to a State Tax Appeal Board review. Except in cases where fraud or the adoption of a fundamentally wrong principle of assessment is shown, an appeal to the local board is the exclusive remedy granted the taxpayer. If a taxpayer is denied a hearing before the local board because of a late assessment, the assessment is invalid because it denies the taxpayer a constitutional right to a hearing before the local board. Butte Country Club v. Department of Revenue, 186 Mont. 424, 608 P.2d 111 (1980).

Section 15-7-102, MCA, gives the State Tax Appeal Board specific power to hear tax appraisal appeals, including the power to pass judgment on appraisal methods. Department of Revenue v. State Tax Appeal Board, 188 Mont. 244, 613 P.2d 691 (1980).

The role of the various entities was discussed in a 1983 case. A company appealed a property appraisal to the County Tax Appeal Board, the State Tax Appeal Board, the District Court, and the Supreme Court, who all reached the same result. The Supreme Court said that it is not a judicial function to act as an authority on taxation matters. The Court will not evaluate the advantages and disadvantages of a particular assessment method as applied to a taxpayer. Tax

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appeal boards are particularly suited for settling disputes over the appropriate valuation of a given piece of property or a particular improvement, and the judiciary cannot properly interfere with that function. NW. Land & Development of Montana, Inc. v. State Tax Appeal Board, 203

Mont. 313, 661 P.2d 44 (1983), followed in United Grain Corp. v. Department of Revenue, 248 Mont. 297, 811 P.2d 555 (1991), and partially overruled in DeVoe v. Department of Revenue, 263 Mont. 100, 866 P.2d 228 (1993). In DeVoe, a taxpayer presented evidence of market value but the State Tax Appeal Board refused to consider the evidence in a commercial property tax appeal. Citing Department of Revenue v. Paxson, 205 Mont. 194, 666 P.2d 768 (1983), the Supreme Court held that the Board was required to consider the theory and figures offered by a taxpayer, although not bound to adopt them, and that to refuse to accept a taxpayer's appraisal was an abuse of discretion. In Paxson, the Department of Revenue assessed Paxson's land for tax purposes. Paxson contended that the valuation was too high because part of the land was in a flood plain. The County Tax Appeal Board entered an order granting a 20% reduction in the assessment. This was upheld by the State Tax Appeal Board. The District Court concluded that the 20% reduction was arbitrary and capricious since no evidence was contained in the record to support this figure. The Court then adopted Paxson's theory of reduction and figures. On appeal, the Supreme Court upheld the overturning of the 20% reduction as not supported by the evidence but vacated the District Court's order and remanded the case to the State Tax Appeal Board. The Supreme Court held that the responsibility of fact finding and arriving at the proper taxable valuation is the function of the administrative bodies and not the courts.

OTHER CONSTITUTIONAL CONCERNS

Equal Protection

In addition to the provisions of Article VIII of the Montana Constitution, the equal protection clause contained in Article II, section 4, of the Montana Constitution, and the due process clause contained in Article II, section 17, of the Montana Constitution also apply to property taxation. The equal protection clause essentially requires that similarly situated individuals and entities be treated in the same manner. In the area of taxation, the Legislature is required to have a rational basis for its action. Montana Stockgrowers Association v. State, 238 Mont. 113, 777 P.2d 285 (1989), followed in GBN, Inc. v. Department of Revenue, 249 Mont. 261, 815 P.2d 595 (1991).

A taxpayer whose property value decreased as a result of the 1997 reappraisal filed suit over the 2% phasein of changes of property values set forth in section 15-1-111(1), MCA. Taxpayers who had an increase in property values because of reappraisal had the effects of the increase

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mitigated because of the 2% annual phasein, but taxpayers suffering a decrease in property value just realized a phased-in portion of the decrease. In Roosevelt v. Dept. of Revenue, 1999 MT 30, 293 Mont. 240, 975 P.2d 295 (1999), the Supreme Court held that creating a class of property

owners whose taxes are assessed on a basis greater than the market values of their property while other property owners are assessed property taxes based on the actual or less than actual value of the property causes the property owners in the first class to "bear a disproportionate share of Montana's tax burden" in violation of equal protection under the Montana Constitution (quoting from Barron, *infra*). The Court said that there was no rational basis for the state to impose property taxes in that manner. The Court declared that section 15-1-111(1), MCA, as applied to this taxpayer, was unconstitutional and that the taxpayer was entitled to be assessed at the actual 1997 market value of the property. The Court specifically declined to rule on the constitutionality relating to the class of property owners who are paying taxes based on the market value of their property (those whose value did not change because of reappraisal) and the class of taxpayers who were paying property taxes based upon less than the actual value of their property (those whose value was being phased in to the 1997 value at 2% a year). Both the decision and dissent addressed the problems of equality of valuation in tax treatment, but noted that if the equality is corrected within a reasonable time, no constitutional harm occurred.

Classes of Property

The Legislature has classified property for purposes of taxation. Statutes that provided for the classification of property for purposes of taxation did not infringe upon the guarantee of the equal protection of the laws. Hilger v. Moore, 56 Mont. 146, 182 P. 477 (1919). The Legislature may properly go even to the extent of placing identical articles in the hands of different owners in different classes, because different uses result in different productivity. A classification will be upheld if it has a reasonable relation to some permitted end of governmental action. Wheir v. Dye, 105 Mont. 347, 73 P.2d 209 (1937). However, where a classification results in discrimination, it is an unconstitutional exercise of the legislative function to classify property for taxation. Victor Chemical Works v. Silver Bow County, 130 Mont. 308, 301 P.2d 730 (1956).

State Residence of Taxpayer

Another area of constitutional concern is the treatment of nonresidents. Use of residency to classify persons is a matter of federal law under the U.S. Constitution. Classification based upon residency is prohibited by the privileges and immunities clause of the U.S. Constitution, Article IV, section 2. The U.S. Supreme Court in Austin v. New Hampshire, 420 U.S. 656, 43 L. Ed. 2d

530, 95 S. Ct. 1191 (1975), said that although the privileges and immunities clause does not guarantee precise equality of taxation between residents and nonresidents, the practical operation and effect of the tax must be examined and a substantial equality of treatment of residents and

nonresidents is required. Often discussed in privileges and immunities tax cases is the history of the clause: it was adopted because under the Articles of Confederation, each state was a taxing island imposing taxes on nonresidents in preference to residents. The other underlying theme behind prohibiting the use of state residency as a tax classification is that of representative democracy. Nonresidents are not represented in state legislatures, and thus there is no political check on taxation of them. Of course, a nonresident is subject to the same taxes as a resident, and unless the taxation is transparently aimed at nonresidents, the tax revenue from nonresidents can be more than that collected against residents. A tax, such as income taxes, can be formulated to be determined differently for residents and nonresidents, as long as the treatment of residents and nonresidents is reasonably aimed at a peculiar source of evil or problem.

A twist on the privileges and immunities clause is the "fundamental rights" test set out in Baldwin v. Fish and Game Commission of Montana, 436 U.S. 371, 56 L. Ed. 2d 354, 98 S. Ct. 1852 (1978). The U.S. Supreme Court upheld Montana's imposition of a nonresident hunting license fee that was 7.5 times as much as a resident license. The Court held that hunting was a recreational activity that simply did not come within the purview of the protection of fundamental rights protected by the privileges and immunities clause. The Court did not provide any test for determining what those fundamental rights might be, but did include the right not to be deprived of a livelihood. How this doctrine extends to taxation has not been determined.

Often the matter of residence is a question of equal protection guarantees under the 14th amendment to the U.S. Constitution. For tax questions under the U.S. Constitution, in most cases, the courts use the "rational basis" test similar to that test under the Montana Constitution. For tax classifications based upon fundamental constitutional rights, a "compelling state interest" test is employed. Under the federal equal protection clause, fundamental rights are those rights explicitly or implicitly guaranteed by the U.S. Constitution and include the right to vote, the right to engage in interstate travel, and the right to speak. (See Dunn v. Blumstein, 405 U.S. 330, 31 L. Ed. 2d 274, 92 S. Ct. 995 (1972).) The right to travel and possibly the rights guaranteed by the privileges and immunities clause could be fundamental rights that the state could not use as tax classifications without a "compelling state interest".

SUMMARY

This is the property tax system that the Legislature has currently created. The methods involved in the appraisal system and the resulting valuations of property are constitutional. The Legislature has chosen to phase in the valuations. The property tax system remains burdened by the need to provide funding for the state's share of the basic system of education. The Legislature is free to act within the parameters discussed in this paper.

- ! Similarly situated individuals and entities must be treated in the same manner.
- ! A rational basis is required for classification of property.
- ! Taxes must be levied by general laws for public purposes.
- ! The valuation of property for tax purposes must be equalized.
- ! Valuation by uniform standards under a uniform plan results in equal values.
- ! Equality of values overrides true value of a particular property.
- ! Market value is a statutory and not a constitutional requirement.
- ! All jurisdictions must use values established by the state.
- ! An appeal procedure for valuation and taxes is required.
- ! Taxation cannot be based primarily the state residence of a taxpayer.

ADDENDUM L



**Number of Residential Properties Where Tax Liability Decreased (Winners) or Increased (Losers)
Under Proposal to Cap Growth in Market Value at 3%, 4%, 5%, or 6% Over Current Reappraisal Cycle
Versus Current Law Phase-In of Homestead Exemption and Taxable Valuation Rates**

| County | 3% Cap | | 4% Cap | | 5% Cap | | 6% Cap | |
|-------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
| | # Winners | # Losers | # Winners | # Losers | # Winners | # Losers | # Winners | # Losers |
| Beaverhead | 547 | 3,582 | 372 | 3,757 | 291 | 3,838 | 223 | 3,906 |
| Big Horn | 391 | 2,712 | 320 | 2,783 | 241 | 2,862 | 170 | 2,933 |
| Blaine | 908 | 1,076 | 753 | 1,231 | 603 | 1,381 | 449 | 1,535 |
| Broadwater | 140 | 1,956 | 111 | 1,985 | 93 | 2,003 | 56 | 2,040 |
| Carbon | 760 | 4,760 | 527 | 4,993 | 350 | 5,170 | 244 | 5,276 |
| Carter | 82 | 738 | 61 | 759 | 46 | 774 | 33 | 787 |
| Cascade | 3,668 | 23,604 | 2,323 | 24,949 | 1,534 | 25,738 | 1,040 | 26,232 |
| Chouteau | 414 | 2,259 | 299 | 2,374 | 252 | 2,421 | 214 | 2,459 |
| Custer | 1,176 | 3,660 | 859 | 3,977 | 653 | 4,183 | 531 | 4,305 |
| Daniels | 237 | 949 | 170 | 1,016 | 116 | 1,070 | 84 | 1,102 |
| Dawson | 238 | 3,703 | 140 | 3,801 | 89 | 3,852 | 58 | 3,883 |
| Deer Lodge | 1,150 | 3,136 | 868 | 3,418 | 628 | 3,658 | 474 | 3,812 |
| Fallon | 229 | 1,299 | 157 | 1,371 | 107 | 1,421 | 72 | 1,456 |
| Fergus | 1,230 | 4,503 | 1,005 | 4,728 | 795 | 4,938 | 581 | 5,152 |
| Flathead | 5,687 | 28,418 | 4,084 | 30,021 | 2,881 | 31,224 | 2,020 | 32,085 |
| Gallatin | 8,173 | 18,552 | 6,291 | 20,434 | 4,916 | 21,809 | 3,850 | 22,875 |
| Garfield | 70 | 840 | 53 | 857 | 42 | 868 | 30 | 880 |
| Glacier | 481 | 2,130 | 381 | 2,230 | 295 | 2,316 | 219 | 2,392 |
| Golden Valley | 129 | 356 | 83 | 402 | 63 | 422 | 52 | 433 |
| Granite | 670 | 1,346 | 546 | 1,470 | 412 | 1,604 | 315 | 1,701 |
| Hill | 1,010 | 4,793 | 739 | 5,064 | 554 | 5,249 | 451 | 5,352 |
| Jefferson | 624 | 3,706 | 413 | 3,917 | 275 | 4,055 | 171 | 4,159 |
| Judith Basin | 375 | 1,099 | 307 | 1,167 | 237 | 1,237 | 191 | 1,283 |
| Lake | 2,352 | 9,552 | 1,856 | 10,048 | 1,425 | 10,479 | 1,062 | 10,842 |
| Lewis And Clark | 4,400 | 17,392 | 3,037 | 18,755 | 2,019 | 19,773 | 1,532 | 20,260 |
| Liberty | 138 | 847 | 98 | 887 | 79 | 906 | 60 | 925 |
| Lincoln | 859 | 8,953 | 523 | 9,289 | 362 | 9,450 | 199 | 9,613 |
| Madison | 1,360 | 3,653 | 1,134 | 3,879 | 920 | 4,093 | 673 | 4,340 |
| McCone | 256 | 919 | 217 | 958 | 177 | 998 | 141 | 1,034 |
| Meagher | 474 | 834 | 374 | 934 | 306 | 1,002 | 250 | 1,058 |
| Mineral | 912 | 1,105 | 777 | 1,240 | 633 | 1,384 | 542 | 1,475 |
| Missoula | 8,913 | 23,459 | 5,780 | 26,592 | 3,601 | 28,771 | 2,065 | 30,307 |
| Musselshell | 1,251 | 1,392 | 1,081 | 1,562 | 928 | 1,715 | 768 | 1,875 |
| Park | 1,877 | 5,377 | 1,387 | 5,867 | 1,059 | 6,195 | 852 | 6,402 |
| Petroleum | 11 | 314 | 7 | 318 | 5 | 320 | 5 | 320 |
| Phillips | 413 | 1,689 | 301 | 1,801 | 224 | 1,878 | 173 | 1,929 |
| Pondera | 246 | 2,079 | 186 | 2,139 | 107 | 2,218 | 80 | 2,245 |
| Powder River | 173 | 916 | 148 | 941 | 132 | 957 | 99 | 990 |
| Powell | 838 | 1,975 | 697 | 2,116 | 571 | 2,242 | 466 | 2,347 |
| Prairie | 234 | 488 | 181 | 541 | 150 | 572 | 121 | 601 |
| Ravalli | 2,264 | 13,708 | 1,441 | 14,531 | 957 | 15,015 | 624 | 15,348 |
| Richland | 188 | 3,682 | 113 | 3,757 | 63 | 3,807 | 36 | 3,834 |
| Roosevelt | 425 | 2,301 | 304 | 2,422 | 203 | 2,523 | 129 | 2,597 |
| Rosebud | 83 | 2,909 | 70 | 2,922 | 55 | 2,937 | 39 | 2,953 |
| Sanders | 510 | 4,776 | 320 | 4,966 | 195 | 5,091 | 128 | 5,158 |
| Sheridan | 175 | 1,990 | 105 | 2,060 | 83 | 2,082 | 61 | 2,104 |
| Silver Bow | 1,314 | 12,067 | 1,065 | 12,316 | 703 | 12,678 | 437 | 12,944 |
| Stillwater | 854 | 2,969 | 581 | 3,242 | 390 | 3,433 | 272 | 3,551 |
| Sweet Grass | 552 | 1,174 | 414 | 1,312 | 291 | 1,435 | 206 | 1,520 |
| Teton | 382 | 2,394 | 315 | 2,461 | 250 | 2,526 | 193 | 2,583 |
| Toole | 227 | 1,905 | 156 | 1,976 | 103 | 2,029 | 69 | 2,063 |
| Treasure | 12 | 420 | 8 | 424 | 5 | 427 | 1 | 431 |
| Valley | 382 | 3,284 | 313 | 3,353 | 251 | 3,415 | 169 | 3,497 |
| Wheatland | 235 | 786 | 167 | 854 | 144 | 877 | 103 | 918 |
| Wibaux | 58 | 468 | 42 | 484 | 29 | 497 | 21 | 505 |
| Yellowstone | 7,355 | 38,704 | 4,106 | 41,953 | 2,306 | 43,753 | 1,373 | 44,686 |
| Totals | 68,112 | 293,658 | 48,166 | 313,604 | 34,199 | 327,571 | 24,477 | 337,293 |
| % of Total | 18.8% | 81.2% | 13.3% | 86.7% | 9.5% | 90.5% | 6.8% | 93.2% |

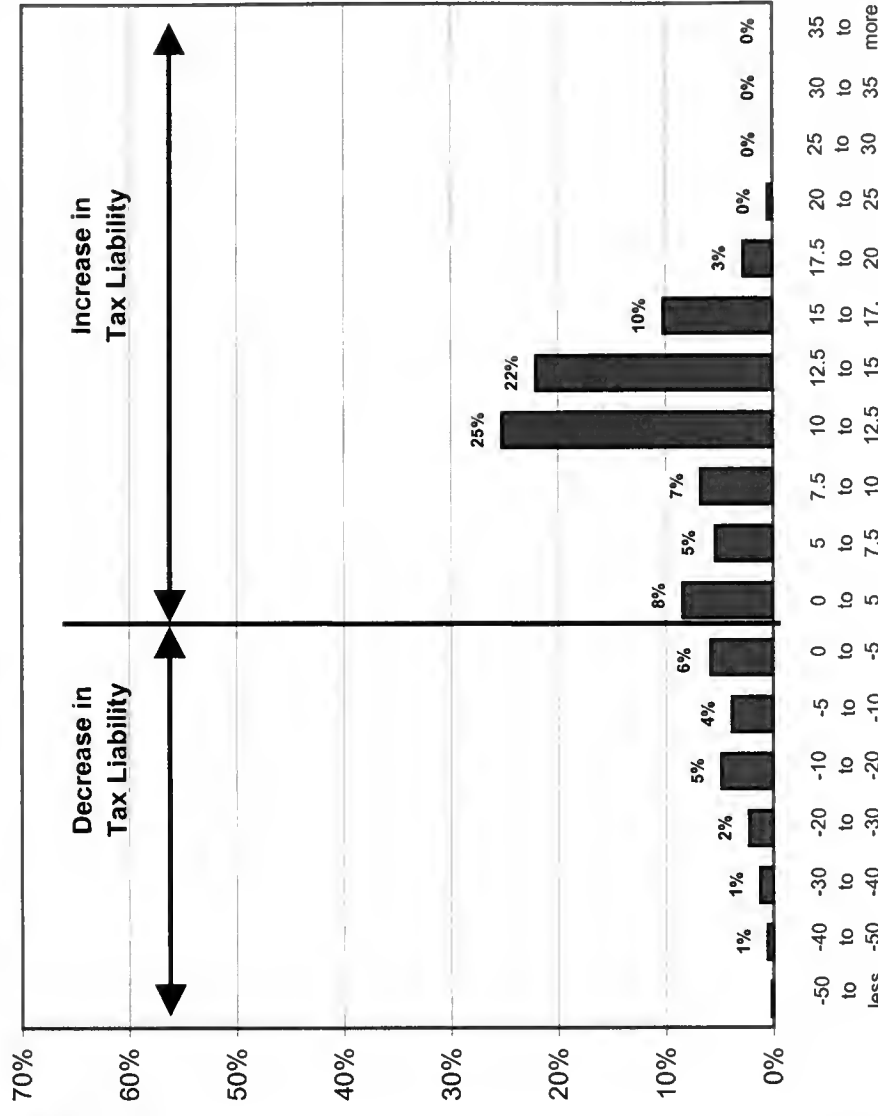
Statewide Impacts of Capping Valuation Growth Versus Current Law Homestead Exemption and Tax Rate Changes

Cap Level: Market Value

Cap Rate: 3%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

| Residential Tax Liability Distribution | | | |
|--|-------------------|--------------|---------------------------|
| % Change Bracket | Number in Bracket | % in Bracket | Cumulative Number Percent |
| -50 or less | 748 | 0.2% | 748 0.2% |
| -50 to -40 | 2,062 | 0.6% | 2,810 0.8% |
| -40 to -30 | 4,548 | 1.3% | 7,358 2.0% |
| -30 to -20 | 8,187 | 2.3% | 15,545 4.3% |
| -20 to -10 | 17,520 | 4.8% | 33,065 9.1% |
| -10 to -5 | 13,957 | 3.9% | 47,022 13.0% |
| -5 to 0 | 21,090 | 5.8% | 68,112 18.8% |
| 0 to 5 | 30,469 | 8.4% | 98,581 27.2% |
| 5 to 7.5 | 19,392 | 5.4% | 117,973 32.6% |
| 7.5 to 10 | 24,399 | 6.7% | 142,372 39.4% |
| 10 to 12.5 | 91,236 | 25.2% | 233,608 64.6% |
| 12.5 to 15 | 79,822 | 22.1% | 313,430 86.6% |
| 15 to 17.5 | 36,865 | 10.2% | 350,295 96.8% |
| 17.5 to 20 | 9,890 | 2.7% | 360,185 99.6% |
| 20 to 25 | 1,584 | 0.4% | 361,769 100.0% |
| 25 to 30 | - | 0.0% | 361,769 100.0% |
| 30 to 35 | - | 0.0% | 361,769 100.0% |
| 35 or more | - | 0.0% | 361,769 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

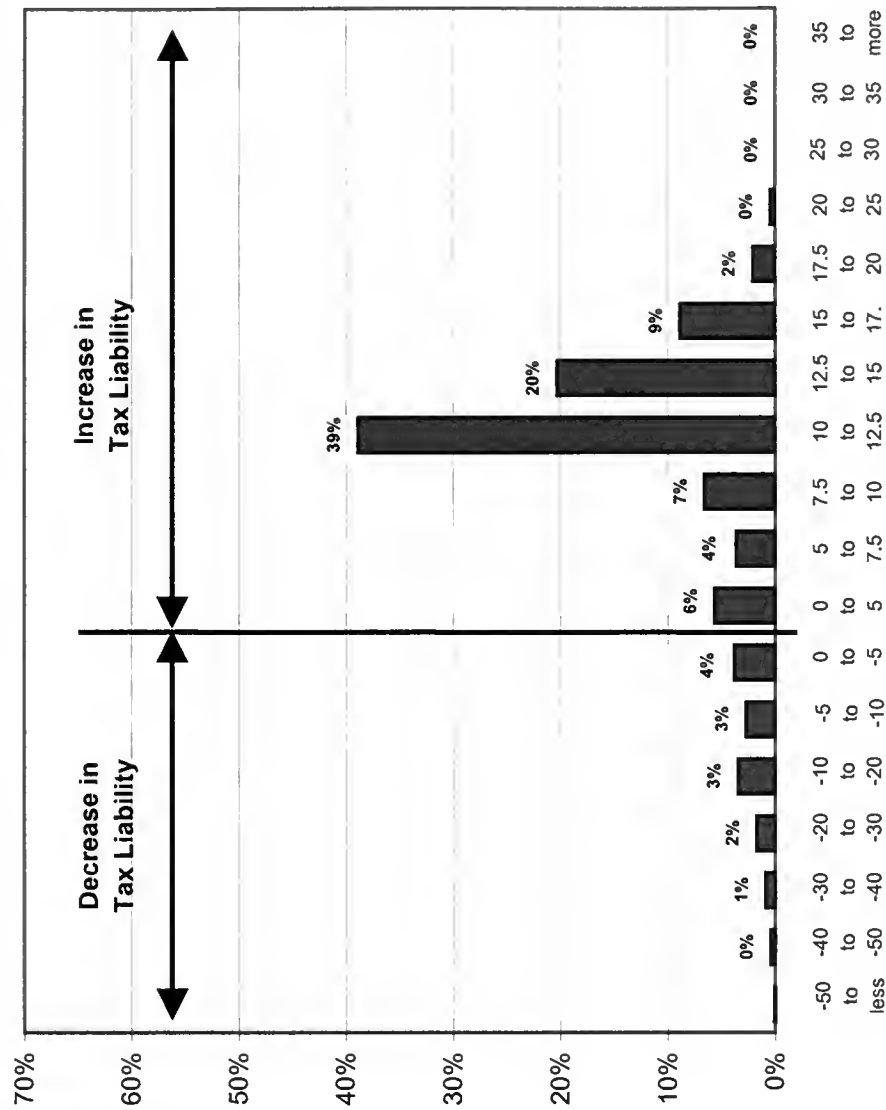
Statewide Impacts of Capping Valuation Growth Versus Current Law Homestead Exemption and Tax Rate Changes

Cap Level: Market Value

Cap Rate: 4%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

| Residential Tax Liability Distribution | | | | |
|--|-------------------|--------------|------------|---------|
| % Change Bracket | Number in Bracket | % in Bracket | Cumulative | |
| | | | Number | Percent |
| -50 or less | 386 | 0.1% | 386 | 0.1% |
| -50 to -40 | 1,661 | 0.5% | 2,047 | 0.6% |
| -40 to -30 | 3,365 | 0.9% | 5,412 | 1.5% |
| -30 to -20 | 6,314 | 1.7% | 11,726 | 3.2% |
| -20 to -10 | 12,610 | 3.5% | 24,336 | 6.7% |
| -10 to -5 | 9,879 | 2.7% | 34,215 | 9.5% |
| -5 to 0 | 13,951 | 3.9% | 48,166 | 13.3% |
| 0 to 5 | 20,522 | 5.7% | 68,688 | 19.0% |
| 5 to 7.5 | 13,307 | 3.7% | 81,995 | 22.7% |
| 7.5 to 10 | 23,977 | 6.6% | 105,972 | 29.3% |
| 10 to 12.5 | 140,742 | 38.9% | 246,714 | 68.2% |
| 12.5 to 15 | 73,562 | 20.3% | 320,276 | 88.5% |
| 15 to 17.5 | 32,175 | 8.9% | 352,451 | 97.4% |
| 17.5 to 20 | 7,603 | 2.1% | 360,054 | 99.5% |
| 20 to 25 | 1,715 | 0.5% | 361,769 | 100.0% |
| 25 to 30 | - | 0.0% | 361,769 | 100.0% |
| 30 to 35 | - | 0.0% | 361,769 | 100.0% |
| 35 or more | - | 0.0% | 361,769 | 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

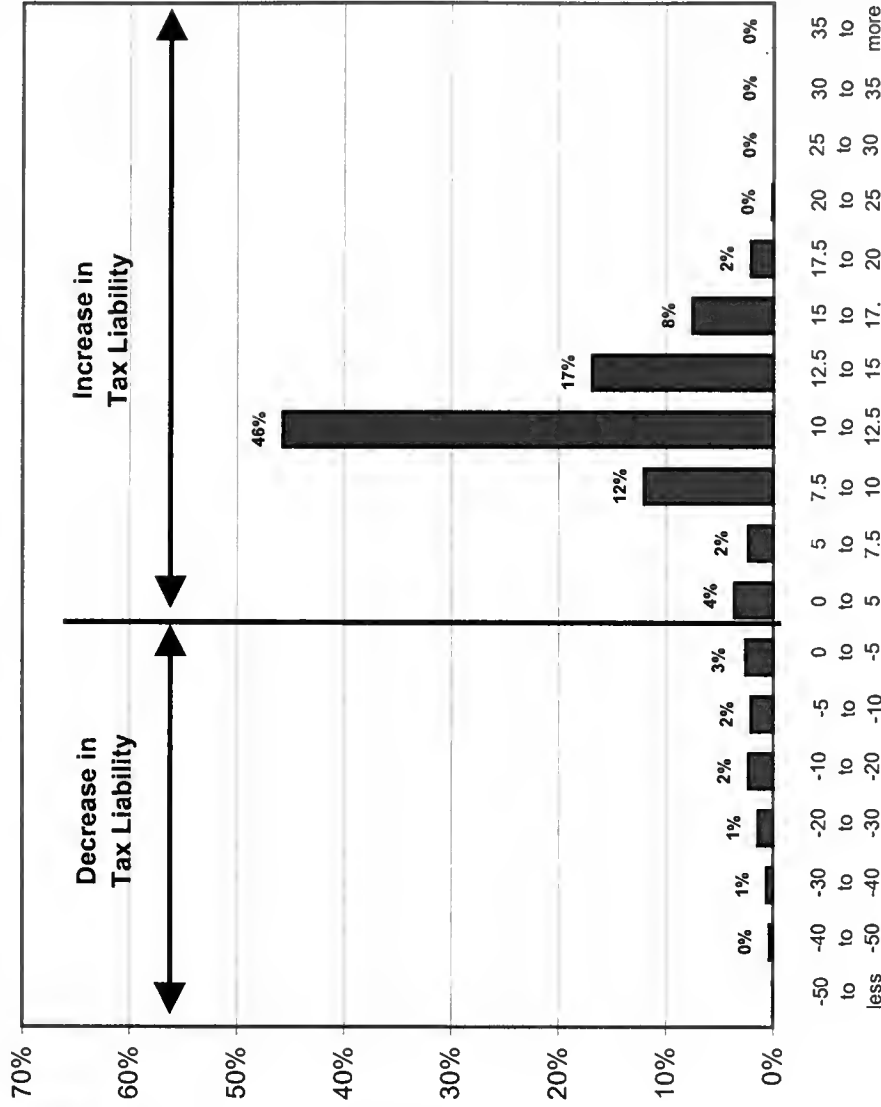
Statewide Impacts of Capping Valuation Growth Versus Current Law Homestead Exemption and Tax Rate Changes

Cap Level: Market Value

Cap Rate: 5%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

| Residential Tax Liability Distribution | | | | |
|--|-------------------|--------------|------------|---------|
| % Change Bracket | Number in Bracket | % in Bracket | Cumulative | |
| | | | Number | Percent |
| -50 or less | 102 | 0.0% | 102 | 0.0% |
| -50 to -40 | 1,325 | 0.4% | 1,427 | 0.4% |
| -40 to -30 | 2,306 | 0.6% | 3,733 | 1.0% |
| -30 to -20 | 5,167 | 1.4% | 8,900 | 2.5% |
| -20 to -10 | 8,378 | 2.3% | 17,278 | 4.8% |
| -10 to -5 | 7,523 | 2.1% | 24,801 | 6.9% |
| -5 to 0 | 9,398 | 2.6% | 34,199 | 9.5% |
| 0 to 5 | 13,153 | 3.6% | 47,352 | 13.1% |
| 5 to 7.5 | 8,572 | 2.4% | 55,924 | 15.5% |
| 7.5 to 10 | 43,550 | 12.0% | 99,474 | 27.5% |
| 10 to 12.5 | 165,560 | 45.8% | 265,034 | 73.3% |
| 12.5 to 15 | 61,176 | 16.9% | 326,210 | 90.2% |
| 15 to 17.5 | 27,333 | 7.6% | 353,543 | 97.7% |
| 17.5 to 20 | 7,645 | 2.1% | 361,188 | 99.8% |
| 20 to 25 | 581 | 0.2% | 361,769 | 100.0% |
| 25 to 30 | - | 0.0% | 361,769 | 100.0% |
| 30 to 35 | - | 0.0% | 361,769 | 100.0% |
| 35 or more | - | 0.0% | 361,769 | 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

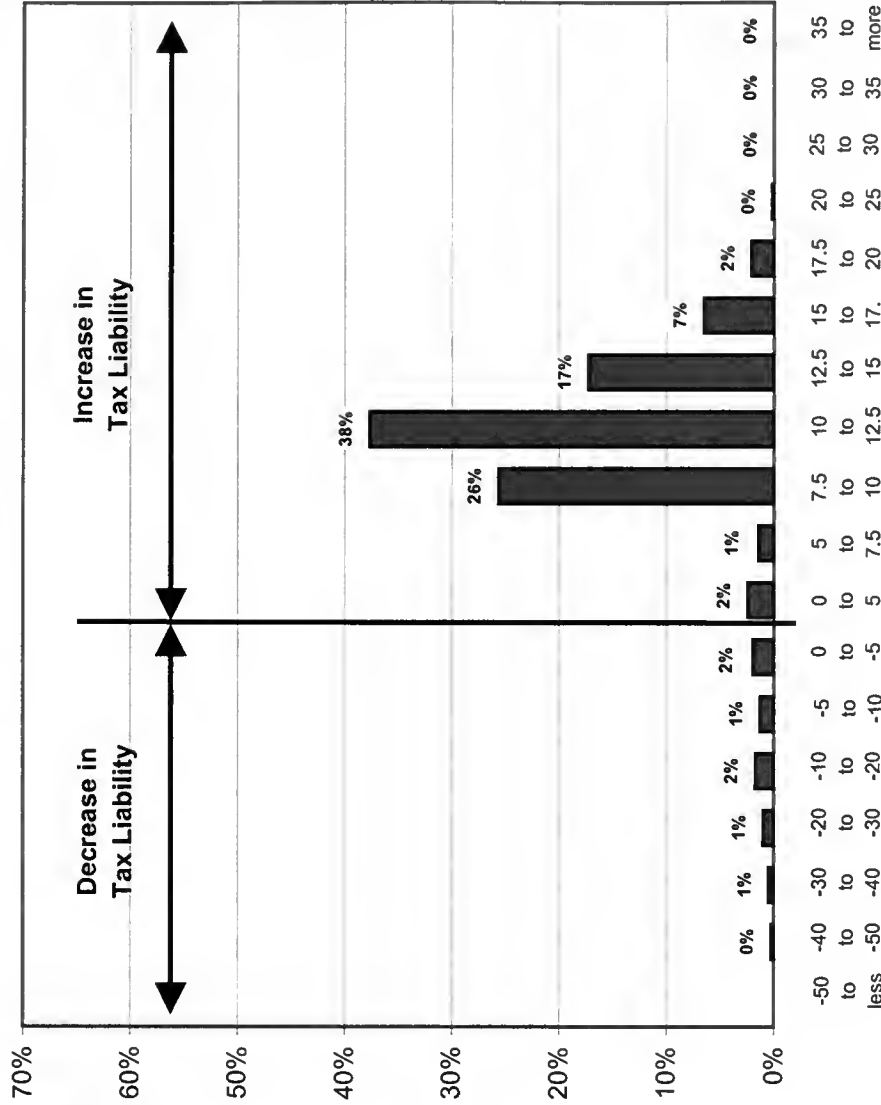
Statewide Impacts of Capping Valuation Growth Versus Current Law Homestead Exemption and Tax Rate Changes

Cap Level: Market Value

Cap Rate: 6%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

Residential Tax Liability Distribution

| % Change Bracket | Number in Bracket | % in Bracket | Cumulative | |
|------------------|-------------------|--------------|------------|---------|
| | | | Number | Percent |
| -50 or less | 10 | 0.0% | 10 | 0.0% |
| -50 to -40 | 946 | 0.3% | 956 | 0.3% |
| -40 to -30 | 1,834 | 0.5% | 2,790 | 0.8% |
| -30 to -20 | 3,699 | 1.0% | 6,489 | 1.8% |
| -20 to -10 | 6,210 | 1.7% | 12,699 | 3.5% |
| -10 to -5 | 4,684 | 1.3% | 17,383 | 4.8% |
| -5 to 0 | 7,094 | 2.0% | 24,477 | 6.8% |
| 0 to 5 | 8,820 | 2.4% | 33,297 | 9.2% |
| 5 to 7.5 | 5,222 | 1.4% | 38,519 | 10.6% |
| 7.5 to 10 | 92,805 | 25.7% | 131,324 | 36.3% |
| 10 to 12.5 | 136,228 | 37.7% | 267,552 | 74.0% |
| 12.5 to 15 | 62,478 | 17.3% | 330,030 | 91.2% |
| 15 to 17.5 | 23,621 | 6.5% | 353,651 | 97.8% |
| 17.5 to 20 | 7,500 | 2.1% | 361,151 | 99.8% |
| 20 to 25 | 618 | 0.2% | 361,769 | 100.0% |
| 25 to 30 | - | 0.0% | 361,769 | 100.0% |
| 30 to 35 | - | 0.0% | 361,769 | 100.0% |
| 35 or more | - | 0.0% | 361,769 | 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

ADDENDUM M



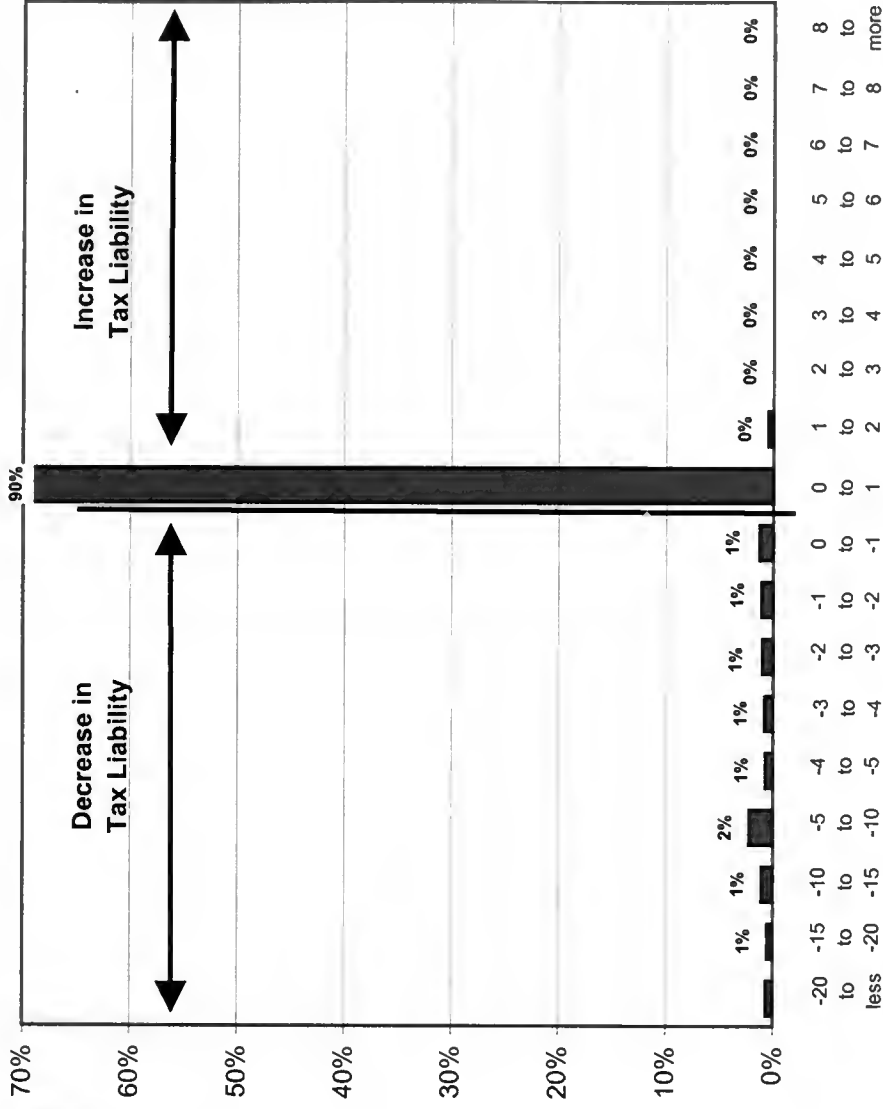
Statewide Impacts of Alternative Capping Proposals

Cap Level: Taxable Value

Cap Rate: 3%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

| Residential Tax Liability Distribution | | | |
|--|-------------------|--------------|---------------------------|
| % Change Bracket | Number in Bracket | % in Bracket | Cumulative Number Percent |
| -20 or less | 2,459 | 0.7% | 2,459 0.7% |
| -20 to -15 | 1,904 | 0.5% | 4,363 1.2% |
| -15 to -10 | 3,966 | 1.1% | 8,329 2.3% |
| -10 to -5 | 8,121 | 2.2% | 16,450 4.5% |
| -5 to -4 | 2,567 | 0.7% | 19,017 5.2% |
| -4 to -3 | 2,963 | 0.8% | 21,980 6.0% |
| -3 to -2 | 3,718 | 1.0% | 25,698 7.1% |
| -2 to -1 | 4,072 | 1.1% | 29,770 8.2% |
| -1 to 0 | 4,722 | 1.3% | 34,492 9.5% |
| 0 to 1 | 328,225 | 90.1% | 362,717 99.5% |
| 1 to 2 | 1,732 | 0.5% | 364,449 100.0% |
| 2 to 3 | - | 0.0% | 364,449 100.0% |
| 3 to 4 | - | 0.0% | 364,449 100.0% |
| 4 to 5 | - | 0.0% | 364,449 100.0% |
| 5 to 6 | - | 0.0% | 364,449 100.0% |
| 6 to 7 | - | 0.0% | 364,449 100.0% |
| 7 to 8 | - | 0.0% | 364,449 100.0% |
| 8 or more | - | 0.0% | 364,449 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

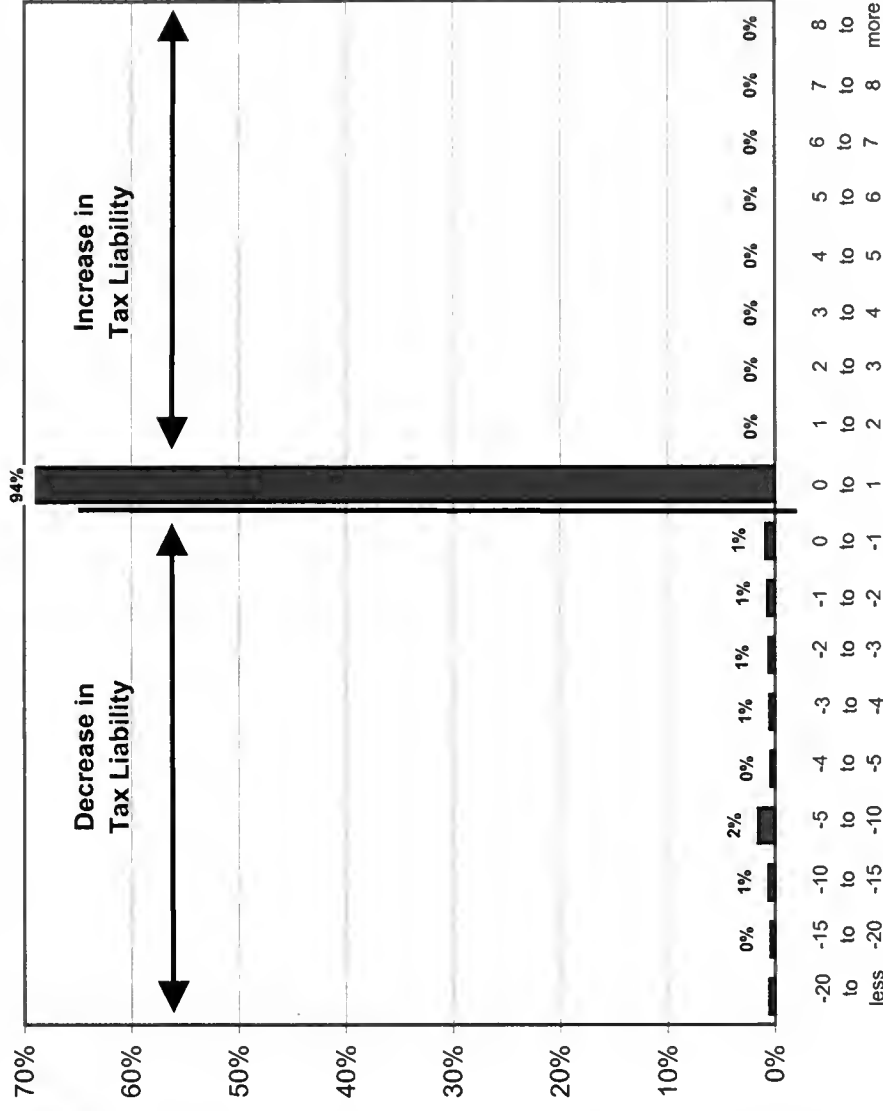
Statewide Impacts of Alternative Capping Proposals

Cap Level: Taxable Value

Cap Rate: 4%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



| Residential Tax Liability Distribution | | | | |
|--|-------------------|--------------|------------|---------|
| % Change Bracket | Number in Bracket | % in Bracket | Cumulative | |
| | | | Number | Percent |
| -20 or less | 1,986 | 0.5% | 1,986 | 0.5% |
| -20 to -15 | 1,542 | 0.4% | 3,528 | 1.0% |
| -15 to -10 | 2,317 | 0.6% | 5,845 | 1.6% |
| -10 to -5 | 5,736 | 1.6% | 11,581 | 3.2% |
| -5 to -4 | 1,562 | 0.4% | 13,143 | 3.6% |
| -4 to -3 | 1,873 | 0.5% | 15,016 | 4.1% |
| -3 to -2 | 2,043 | 0.6% | 17,059 | 4.7% |
| -2 to -1 | 2,562 | 0.7% | 19,621 | 5.4% |
| -1 to 0 | 3,111 | 0.9% | 22,732 | 6.2% |
| 0 to 1 | 341,717 | 93.8% | 364,449 | 100.0% |
| 1 to 2 | - | 0.0% | 364,449 | 100.0% |
| 2 to 3 | - | 0.0% | 364,449 | 100.0% |
| 3 to 4 | - | 0.0% | 364,449 | 100.0% |
| 4 to 5 | - | 0.0% | 364,449 | 100.0% |
| 5 to 6 | - | 0.0% | 364,449 | 100.0% |
| 6 to 7 | - | 0.0% | 364,449 | 100.0% |
| 7 to 8 | - | 0.0% | 364,449 | 100.0% |
| 8 or more | - | 0.0% | 364,449 | 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

Statewide Impacts of Alternative Capping Proposals

Cap Level: Taxable Value

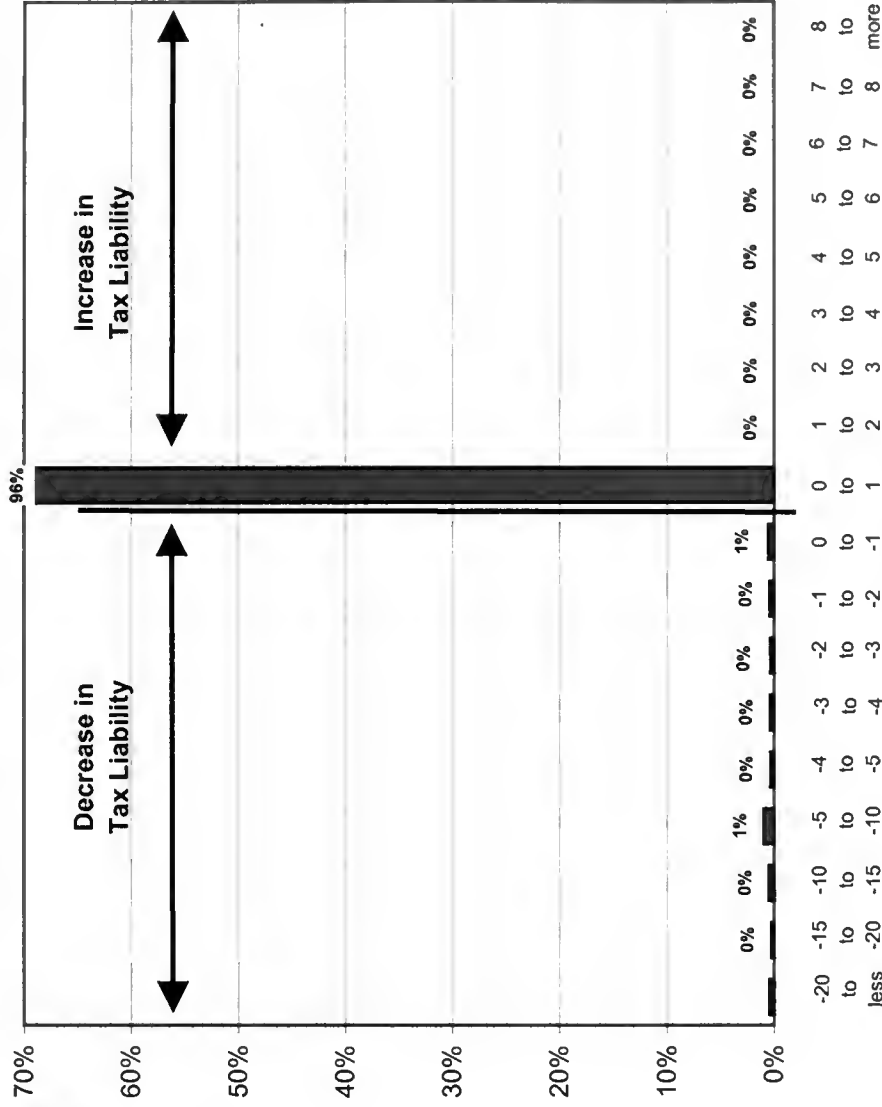
Cap Rate: 5%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008

| Residential Tax Liability Distribution | | | | |
|--|-------------------|--------------|------------|---------|
| % Change Bracket | Number in Bracket | % in Bracket | Cumulative | |
| | | | Number | Percent |
| -20 or less | 1,615 | 0.4% | 1,615 | 0.4% |
| -20 to -15 | 981 | 0.3% | 2,596 | 0.7% |
| -15 to -10 | 1,798 | 0.5% | 4,394 | 1.2% |
| -10 to -5 | 3,621 | 1.0% | 8,015 | 2.2% |
| -5 to -4 | 1,269 | 0.3% | 9,284 | 2.5% |
| -4 to -3 | 1,361 | 0.4% | 10,645 | 2.9% |
| -3 to -2 | 1,356 | 0.4% | 12,001 | 3.3% |
| -2 to -1 | 1,559 | 0.4% | 13,560 | 3.7% |
| -1 to 0 | 1,914 | 0.5% | 15,474 | 4.2% |
| 0 to 1 | 348,975 | 95.8% | 364,449 | 100.0% |
| 1 to 2 | - | 0.0% | 364,449 | 100.0% |
| 2 to 3 | - | 0.0% | 364,449 | 100.0% |
| 3 to 4 | - | 0.0% | 364,449 | 100.0% |
| 4 to 5 | - | 0.0% | 364,449 | 100.0% |
| 5 to 6 | - | 0.0% | 364,449 | 100.0% |
| 6 to 7 | - | 0.0% | 364,449 | 100.0% |
| 7 to 8 | - | 0.0% | 364,449 | 100.0% |
| 8 or more | - | 0.0% | 364,449 | 100.0% |

The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.



Percent Change in Taxes Paid - TY2008

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

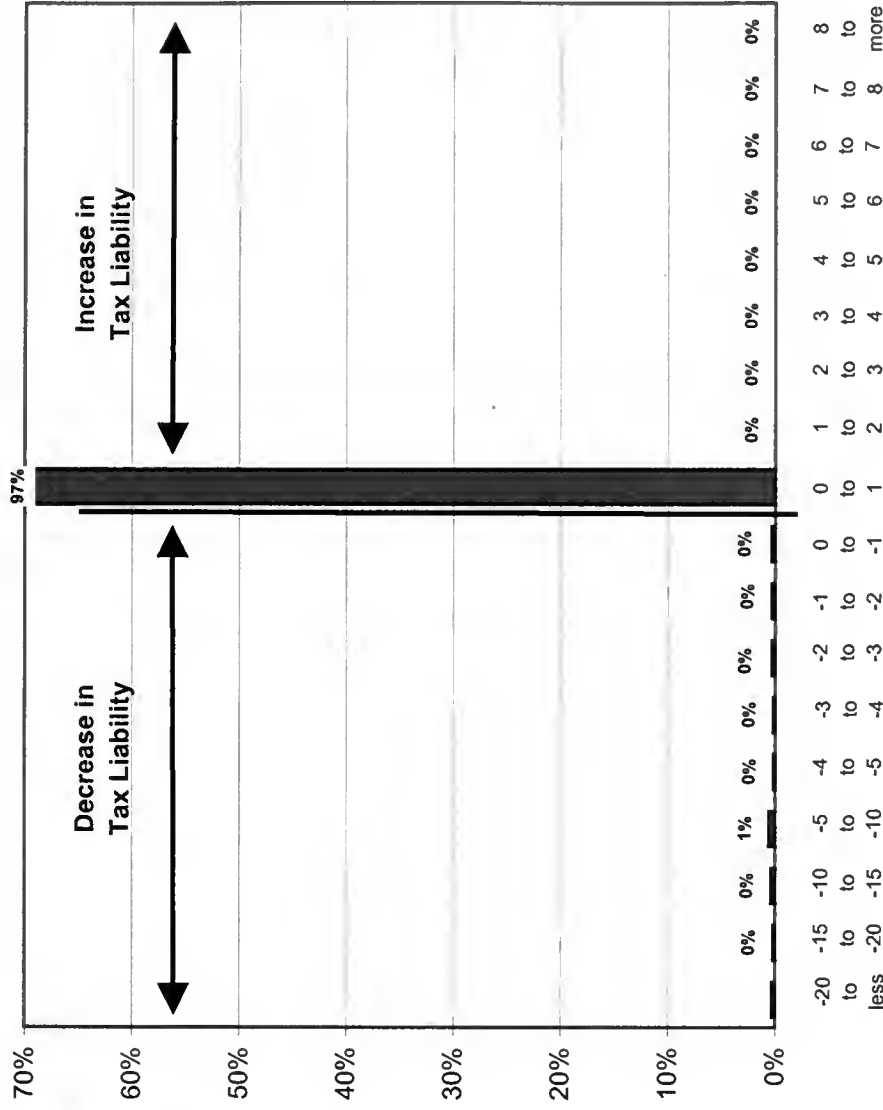
Statewide Impacts of Alternative Capping Proposals

Cap Level: Taxable Value

Cap Rate: 6%

Class 4 Residential Properties

Percent Change in Property Tax Liability - TY2008



Percent Change in Taxes Paid - TY2008

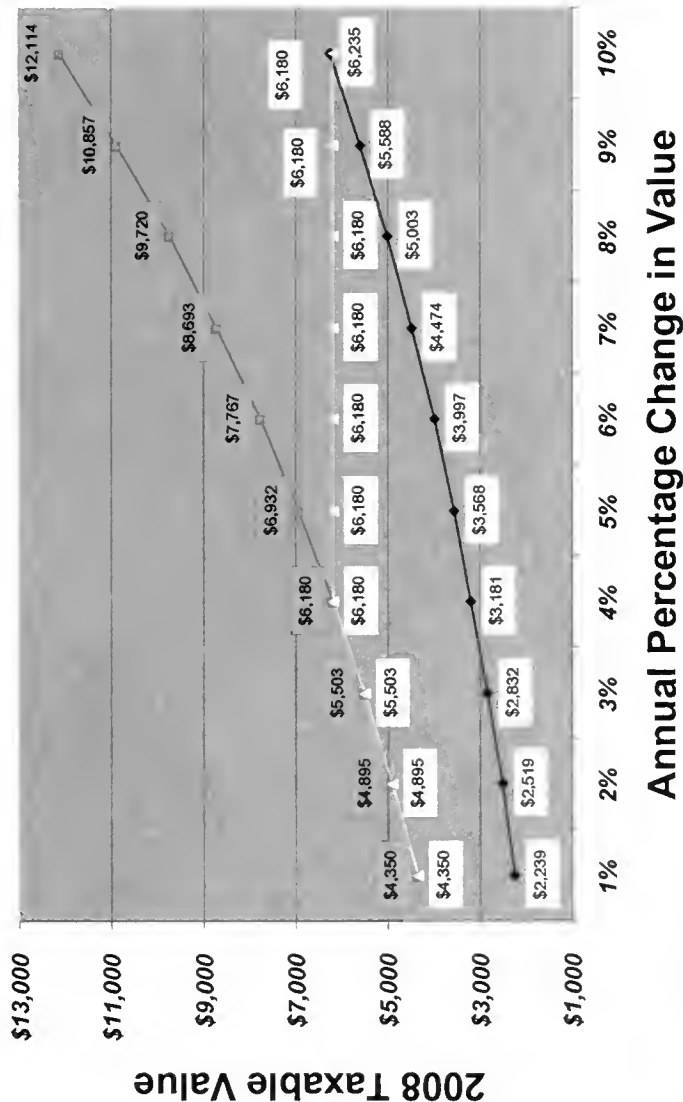
The estimated change in taxes paid reflects capping at the specified level and rate; current law phase-in of reappraisal values, homestead exemptions, and taxable valuation rates; and assumes local government and school district mill levies adjust to maintain current levels of revenue.

The analysis does not include vacant lots or residential parcels with improvement values of less than \$7,500; it does include all mobile homes.

ADDENDUM N



Impact of Capping Growth



— CURRENT LAW

NO EXEMPTION - PHASED IN - NO CAP

NO EXEMPTION - PHASED IN - 4% CAP ON MARKET VALUE DOES NOT APPLY AS INC IS <4% or NO EXEMPTION - PHASED IN - 4% CAP ON MARKET VALUE

Percent Change for Different Time Periods

| Annual | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% |
|-------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Per 6 Year Cycle | 6.2% | 12.6% | 19.4% | 26.5% | 34.0% | 41.9% | 50.1% | 58.7% | 67.7% | 77.2% |
| from 1996 to 2008 | 12.7% | 26.8% | 42.6% | 60.1% | 79.6% | 101.2% | 125.2% | 151.8% | 181.3% | 213.8% |

ADDENDUM O



**Distribution of Residential Properties by Percentage Change in
2003 Reappraisal Value - By County**

| County | Number of Residential Properties with an Increase in Reappraisal Value of: | | | | | | | | | | Total |
|-----------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|----------------|
| | <=0% | 0% to 10% | 10% to 20% | 20% to 25% | 25% to 30% | 30% to 40% | 40% to 50% | 50% to 75% | 75% to 100% | >=100% | |
| Silver Bow | 3,038 | 6,107 | 1,885 | 456 | 328 | 402 | 310 | 586 | 99 | 239 | 13,450 |
| Cascade | 2,577 | 4,003 | 8,882 | 4,205 | 2,824 | 2,409 | 949 | 930 | 231 | 371 | 27,381 |
| Yellowstone | 4,756 | 6,103 | 11,600 | 6,739 | 5,909 | 6,633 | 2,298 | 1,477 | 258 | 374 | 46,147 |
| Missoula | 1,414 | 2,242 | 6,312 | 4,917 | 5,014 | 6,268 | 2,911 | 2,698 | 392 | 226 | 32,394 |
| Lewis And Clark | 1,745 | 4,343 | 6,178 | 2,476 | 1,760 | 2,145 | 1,253 | 992 | 454 | 694 | 22,040 |
| Gallatin | 839 | 3,754 | 6,321 | 2,855 | 2,409 | 3,601 | 2,046 | 2,458 | 1,374 | 1,242 | 26,899 |
| Flathead | 2,790 | 6,831 | 10,508 | 3,899 | 2,678 | 3,030 | 1,634 | 1,786 | 487 | 572 | 34,215 |
| Fergus | 618 | 1,532 | 1,490 | 383 | 286 | 364 | 268 | 470 | 130 | 340 | 5,881 |
| Powder River | 318 | 97 | 143 | 133 | 115 | 103 | 34 | 63 | 34 | 56 | 1,096 |
| Carbon | 693 | 1,695 | 1,296 | 489 | 317 | 415 | 244 | 225 | 62 | 110 | 5,546 |
| Phillips | 447 | 344 | 383 | 166 | 149 | 221 | 122 | 126 | 58 | 127 | 2,143 |
| Hill | 603 | 1,930 | 1,311 | 395 | 296 | 450 | 255 | 410 | 91 | 218 | 5,959 |
| Ravalli | 2,390 | 2,727 | 4,383 | 1,741 | 1,436 | 1,619 | 725 | 653 | 186 | 152 | 16,012 |
| Custer | 572 | 915 | 1,019 | 463 | 372 | 613 | 248 | 436 | 120 | 124 | 4,882 |
| Lake | 1,987 | 2,522 | 2,557 | 986 | 768 | 1,008 | 634 | 874 | 307 | 290 | 11,933 |
| Dawson | 925 | 1,295 | 848 | 263 | 178 | 214 | 97 | 77 | 19 | 34 | 3,950 |
| Roosevelt | 557 | 524 | 526 | 212 | 268 | 249 | 125 | 183 | 49 | 55 | 2,748 |
| Beaverhead | 755 | 1,347 | 727 | 250 | 360 | 224 | 150 | 171 | 74 | 129 | 4,187 |
| Chouteau | 477 | 707 | 612 | 176 | 122 | 175 | 125 | 178 | 36 | 99 | 2,707 |
| Valley | 727 | 1,638 | 484 | 176 | 155 | 145 | 73 | 136 | 51 | 117 | 3,702 |
| Toole | 476 | 683 | 429 | 137 | 79 | 106 | 84 | 98 | 20 | 36 | 2,148 |
| Big Horn | 1,148 | 1,029 | 283 | 121 | 63 | 112 | 73 | 241 | 21 | 28 | 3,119 |
| Musselshell | 103 | 134 | 308 | 308 | 237 | 334 | 260 | 434 | 210 | 449 | 2,777 |
| Blaine | 170 | 159 | 164 | 110 | 127 | 279 | 244 | 368 | 183 | 239 | 2,043 |
| Madison | 482 | 992 | 959 | 329 | 368 | 428 | 332 | 638 | 301 | 257 | 5,086 |
| Pondera | 363 | 915 | 539 | 138 | 74 | 60 | 111 | 62 | 20 | 70 | 2,352 |
| Richland | 1,566 | 1,110 | 665 | 187 | 104 | 105 | 68 | 43 | 11 | 13 | 3,872 |
| Powell | 328 | 432 | 481 | 207 | 216 | 326 | 205 | 272 | 123 | 292 | 2,882 |
| Rosebud | 1,239 | 946 | 510 | 88 | 71 | 54 | 22 | 28 | 13 | 31 | 3,002 |
| Deer Lodge | 326 | 697 | 1,108 | 413 | 361 | 462 | 337 | 340 | 119 | 235 | 4,398 |
| Teton | 421 | 1,012 | 601 | 142 | 111 | 144 | 82 | 144 | 58 | 120 | 2,835 |
| Stillwater | 388 | 853 | 780 | 311 | 280 | 433 | 324 | 271 | 73 | 126 | 3,839 |
| Treasure | 123 | 95 | 125 | 46 | 21 | 10 | 5 | 6 | 0 | 1 | 432 |
| Sheridan | 694 | 751 | 259 | 151 | 55 | 102 | 58 | 49 | 10 | 65 | 2,194 |
| Sanders | 680 | 1,109 | 1,894 | 500 | 319 | 379 | 188 | 142 | 51 | 26 | 5,288 |
| Judith Basin | 162 | 258 | 332 | 142 | 92 | 119 | 102 | 175 | 47 | 65 | 1,494 |
| Daniels | 158 | 302 | 219 | 87 | 60 | 133 | 89 | 97 | 33 | 11 | 1,189 |
| Glacier | 427 | 912 | 434 | 129 | 137 | 132 | 114 | 150 | 150 | 76 | 2,661 |
| Fallon | 282 | 330 | 216 | 135 | 134 | 199 | 98 | 95 | 23 | 26 | 1,538 |
| Sweet Grass | 118 | 93 | 263 | 254 | 189 | 295 | 180 | 255 | 58 | 34 | 1,739 |
| McCone | 210 | 247 | 264 | 60 | 55 | 87 | 42 | 100 | 34 | 86 | 1,185 |
| Carter | 183 | 160 | 110 | 107 | 76 | 100 | 27 | 37 | 7 | 28 | 835 |
| Broadwater | 411 | 932 | 415 | 90 | 51 | 71 | 27 | 62 | 21 | 18 | 2,098 |
| Wheatland | 52 | 172 | 229 | 108 | 112 | 146 | 52 | 58 | 55 | 103 | 1,087 |
| Prairie | 118 | 108 | 83 | 62 | 40 | 72 | 66 | 86 | 37 | 90 | 762 |
| Granite | 227 | 306 | 295 | 150 | 129 | 254 | 157 | 275 | 97 | 270 | 2,160 |
| Meagher | 113 | 97 | 180 | 93 | 126 | 207 | 142 | 165 | 93 | 144 | 1,360 |
| Liberty | 83 | 196 | 265 | 98 | 98 | 110 | 48 | 37 | 29 | 29 | 993 |
| Park | 680 | 1,131 | 1,469 | 682 | 653 | 984 | 546 | 532 | 405 | 185 | 7,267 |
| Garfield | 234 | 269 | 165 | 39 | 97 | 40 | 21 | 36 | 4 | 8 | 913 |
| Jefferson | 578 | 738 | 1,341 | 542 | 369 | 320 | 173 | 170 | 49 | 137 | 4,417 |
| Wibaux | 146 | 94 | 103 | 53 | 27 | 41 | 23 | 27 | 6 | 11 | 531 |
| Golden Valley | 31 | 32 | 61 | 50 | 57 | 122 | 58 | 31 | 13 | 45 | 500 |
| Mineral | 93 | 155 | 290 | 163 | 180 | 259 | 177 | 457 | 121 | 141 | 2,036 |
| Petroleum | 156 | 103 | 46 | 2 | 5 | 4 | 4 | 3 | 0 | 3 | 326 |
| Lincoln | 1,062 | 3,104 | 3,413 | 811 | 373 | 510 | 193 | 266 | 61 | 26 | 9,819 |
| Totals | 42,259 | 71,312 | 86,763 | 38,425 | 31,290 | 37,827 | 19,233 | 21,179 | 7,068 | 9,093 | 364,449 |

Statewide %

Distribution 11.6% 19.6% 23.8% 10.5% 8.6% 10.4% 5.3% 5.8% 1.9% 2.5% 100.0%

ADDENDUM P





MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Legislative Fiscal Analyst
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DATE: August 25, 2004

TO: Interim Tax Reappraisal Committee

FROM: Jim Standaert
Senior Fiscal Analyst

RE: Impact of Various Proposals to Cap Growth in Market Value and Taxable Value
on School District General Fund Mills

The Tax Reappraisal Committee is considering proposals to cap interyear growth in market values or taxable values. The growth caps considered are 3%, 4%, 5% and 6%. Taxpayers with high increases in either property market values or property taxable values would benefit from these proposals. However, other taxpayers with small increases in either market value or taxable value would experience increases in mill levies. This report analyzes how much school district general fund levies would increase as a result of these proposals under the assumption that district general fund revenues are the same with and without the proposal.

The table below shows that:

- The effect of each proposal on mills is small in the first year, and increases in later years as the effect of capping growth in values drives a wedge between true value and capped value
- The mill changes decrease as the cap level is increased
- Mill changes associated with capping full market value growth are higher than those associated with capping taxable value growth

Also shown in the table is the increase of the various capping strategies on state Guaranteed Tax Base (GTB) aid. State GTB aid will increase in response to these proposals because of the way GTB is calculated. This year's GTB aid received by any district is dependent upon this year's mill levy (which is higher under all the proposals) times each school's subsidy per mill, which is based on taxable values in the prior year.

The table shows that the GTB impact is:

- Highest for the proposals capping full market value as compared with capping taxable value
- Highest for those proposals where the cap is lowest
- Increasing over time, and will mitigate some of the increase in Base mills experienced in those jurisdictions where the caps have their greatest impact on taxable value

Change in GTB Due to Alternative Cap Mechanisms

| Mechanism | Cap | TY06 | TY07 |
|-------------------------|-------|-----------|--------------|
| Cap Full Market Value @ | 3% \$ | 1,751,114 | \$ 2,825,343 |
| Cap Full Market Value @ | 4% | 1,678,070 | 2,736,925 |
| Cap Full Market Value @ | 5% | 1,637,414 | 2,692,993 |
| Cap Full Market Value @ | 6% | 1,615,943 | 2,673,585 |
| Cap Taxable Value @ | 3% \$ | 1,448,872 | \$ 2,557,858 |
| Cap Taxable Value @ | 4% | 1,439,796 | 2,550,640 |
| Cap Taxable Value @ | 5% | 1,434,451 | 2,547,108 |
| Cap Taxable Value @ | 6% | 1,431,024 | 2,545,157 |

Change in General Fund Mills

| Tax Year 2006 | | | | |
|-------------------------|-----|--------------------|---------------------|---------------------|
| Mechanism | Cap | Median Mill Change | Maximum Mill Change | Minimum Mill Change |
| Cap Full Market Value @ | 3% | 0.58 | 2.59 | - |
| Cap Full Market Value @ | 4% | 0.45 | 2.23 | - |
| Cap Full Market Value @ | 5% | 0.38 | 1.99 | - |
| Cap Full Market Value @ | 6% | 0.32 | 1.83 | - |
| Cap Taxable Value @ | 3% | 0.04 | 0.47 | - |
| Cap Taxable Value @ | 4% | 0.03 | 0.33 | - |
| Cap Taxable Value @ | 5% | 0.02 | 0.29 | - |
| Cap Taxable Value @ | 6% | 0.01 | 0.27 | - |
| Tax Year 2007 | | | | |
| Mechanism | Cap | Median Mill Change | Maximum Mill Change | Minimum Mill Change |
| Cap Full Market Value @ | 3% | 1.16 | 4.25 | - |
| Cap Full Market Value @ | 4% | 0.83 | 3.46 | - |
| Cap Full Market Value @ | 5% | 0.71 | 2.94 | - |
| Cap Full Market Value @ | 6% | 0.61 | 2.63 | - |
| Cap Taxable Value @ | 3% | 0.15 | 0.80 | - |
| Cap Taxable Value @ | 4% | 0.08 | 0.60 | - |
| Cap Taxable Value @ | 5% | 0.06 | 0.49 | - |
| Cap Taxable Value @ | 6% | 0.04 | 0.45 | - |

ADDENDUM Q



Standard on Property Tax Policy

Approved August 2004

International Association of Assessing Officers

The assessment standards set forth herein represent a consensus in the assessing profession and have been adopted by the Executive Board of the International Association of Assessing Officers. The objective of these standards is to provide a systematic means by which concerned assessing officers can improve and standardize the operation of their offices. The standards presented here are advisory in nature and the use of, or compliance with, such standards is purely voluntary. If any portion of these standards is found to be in conflict with the *Uniform Standards of Professional Appraisal Practice (USPAP)* or state laws, *USPAP* and state laws shall govern.

Acknowledgments

The revision of the Standard on Property Tax Policy began in 2003. At the time of the adoption of the standard by the IAAO Executive Board, the IAAO Technical Standards Committee was composed of Alan S. Dornfest, AAS chair; Nancy C. Tomberlin; Bruce Woodzell; Robert Scribner, CAE; Ken Uhrich; and D. Edward Crane.

The standard also benefited from the support, recommendations, and thorough review of many others. In particular, the committee would like to thank Stephen C. Behrenbrinker, CAE; Frederick M. Chmura, AAS; Jane Malme; Tim Wooten; Richard Almy; Dr. Glenn Fisher; and Joan Youngman.

Published by
International Association of Assessing Officers
130 East Randolph
Suite 850
Chicago, IL 60601-6217

312/819-6100
fax: 312/819-6149
<http://www.iaao.org>

ISBN 0-88329-184-3
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Printed in the United States of America.

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Standard on Property Tax Policy

1. Scope

This standard focuses on defining the elements of property tax policy and their influence on the equitable distribution of property tax. The standard discusses how tax policy affects the administration of assessments and the role of administrators in shaping tax policy. Policy issues affecting administration include the division of responsibility between state and local governments, equalization, appeals, public relations, reappraisal systems, the market value standard, exemptions and abatements, fractional assessment (ratios), and limits on taxes and assessed values. Tax collection issues are not addressed in this standard.

2. Introduction

This standard is intended to guide property tax assessment officials, tax policy analysts, and administrators of state- and provincial-level agencies. As used throughout the standard, “assessing officer” refers to appropriate state, provincial, or local officials. Although similar issues arise in any nation’s property tax system, some sections of this standard will apply only to relationships within the United States property tax system, which assigns the power to tax property to state governments.

Primary responsibility for property tax policy decisions in the United States lies with the executive and legislative branches of state government, which propose and enact governing statutes. The judicial branch of government is also involved in clarifying and interpreting statutory provisions. The primary role of assessing officers, who may be involved in a state oversight or local appraisal and assessment role, is to implement and administer statutes. This process often overlaps with enforcement and administration of court decisions and development of administrative rules and regulations. Representatives of the executive and legislative branches may seek information and assistance from assessors, who also may initiate legislative action through coordinated efforts with regional associations and executive agencies. Therefore, assessing officers should understand desirable property tax models or systems.

2.1 Assessing Officer’s Role in Policy Formation

Assessing officers should work continually with the issues involved in property tax administration to increase their knowledge of various property tax systems and should use this knowledge to improve the system. Their role will change depending on whether they represent state or local agencies. Assessing officers can serve as an information resource, help shape debate, define the administrative requirements of a policy proposal, call attention to problems that might be created by a policy, propose legislative remedies, and participate in the development of statutes, rules, and regulations. Assessing officers are encouraged to develop their policy proposals or legislative action plans by working with their professional associations.

2.1.1 Information Resource

Assessing officers and regional or state assessors associations should act as an information resource to enable legislators and other policymakers to understand better the effects of proposed policy changes. State-level property tax agencies often compile legal and technical information and provide research that can be shared with the assessing officer, and such agencies often can help set up an information database.

2.1.2 Steering and Guidance

The assessing officer should help shape the debate over concepts into the most productive and most administrable avenues. For example, if a legislator wishes to lessen the impact of rapid inflation by imposing a cap on the amount that assessed or market values can increase, the assessing officer can explain the inequities that could result and can propose alternatives that may be more equitable, such as budget or revenue caps or selective exemptions.

2.1.3 Administrative Aspects

The assessing officer should suggest practical and feasible alternatives to proposals that are well intentioned but poorly designed, administratively impractical, or fraught with unintended consequences. For example,

reprogramming computer systems to track eligibility for a new exemption may require more time or money than is available. The assessing officer can suggest a more administratively feasible type of exemption, or can ask for programming or other funding to be included with the proposed legislation without passing judgment on the concept.

2.1.4 Identifying Problems and Solutions

The assessing officer is encouraged to work with legislators and taxpayer groups to seek legislative remedies to, or clarification of, proposed laws with unintended inequities as they become apparent. For example, assume that to accommodate financial difficulties associated with farming, a proposal is made to exempt all equipment and machinery from property tax. This may help the agricultural sector but may seriously erode the tax base of a jurisdiction that is highly industrial, if industrial equipment and machinery become exempt through failure to narrow the exemption properly.

2.1.5 Participation in Development of Rules and Regulations

Administrative or oversight agencies, especially at the state level, often develop rules and regulations to clarify vague statutes. State administrative agencies are encouraged to incorporate clear and concise language into such regulations and to seek participation of local assessing officers and other local officials.

2.1.6 Tax Enforcement v. Fairness and Equity

The assessing officer is charged by the state legislature or other governing authorities with administering and enforcing laws related to property tax assessment. Under this system, equity is achieved through enforcement, which ensures that assessments and, ultimately, taxes are distributed as equitably as possible under the law. Whether this distribution is perceived as fair is a separate issue, more properly decided in the legislative arena. The assessing officer should endeavor to enforce the statutory requirements but should take note of fairness issues raised by taxpayers, bringing these to legislative attention when appropriate opportunities occur or directing taxpayers to the legislative arena.

2.2 The Role of the Property Tax

The property tax provides for balance and equity in the total tax system by taxing the one element of ability to pay overlooked by other state and local taxes. The property tax allocates the cost of government according to

ability to pay as measured by property wealth. Among the many types of taxes levied, the property tax is the only tax used in every state of the United States, the District of Columbia, and every Canadian province. In fact, the property tax remains the most important source of own-source and total revenue for local governments in the United States.

2.2.1 Advantages of the Property Tax

The property tax is more stable and reliable as a revenue source than any other tax. Property value generally is less susceptible to short-term economic fluctuations than other major revenue sources in common use in the United States, including sales and income taxes. Furthermore, inclusion of property tax as one component of a diversified tax base means that fluctuations of any one revenue source will be less destabilizing to overall revenue. Because property, sales, and income taxes are largely independent, the impact of each tax varies among economic segments of the population. For example, a farming operation may earn little net taxable income and pay little income tax but will still be required to participate in the costs of government through property tax on land, buildings, and equipment. If a state has prime recreational areas with many property owners who reside in other states, these owners may pay little income or sales tax, but their demand for services may be high and will only be met by property tax. As a tax on wealth, as measured by property value, the property tax reaches and includes broad sectors of the citizenry in sharing the costs of government. Elimination of the property tax would shift taxes considerably and could eliminate certain sectors from any participation in paying these costs.

Also, property tax systems are generally more open and visible than administrative systems for other taxes. For example, property owners can examine their assessments and those of nearby properties. An appeals system exists to afford property owners an opportunity to appeal their assessments. In addition, the taxpayer usually is faced with a bill that shows the entire liability, thus making the full magnitude of the tax obvious. This is not the case with taxes that are collected in small amounts as part of the purchase cost (sales tax) or are withheld from pay throughout the year along with many other items (income tax). This visibility helps to focus attention on and thereby improve the overall accountability of government.

Because the property tax generally is levied and administered locally, it is uniquely suited to the needs and structure of local government and promotes local autonomy. Although the property tax may appear to

be administratively complex, it is simpler and more straightforward than most locally administered sales or income taxes.

From an economic perspective, because land is an asset of fixed supply, economic distortions associated with most forms of taxation do not accompany property taxes on land.

Finally, property taxes can be secured by the property and therefore are difficult to evade. For this reason, property taxes provide a more predictable, consistent amount of revenue. This is especially true of taxes on real property.

2.2.2 Disadvantages of the Property Tax

Despite a degree of local control that makes the property tax system more accessible than any other tax system, in the United States the property tax usually is rated by the public as the most unpopular of all state and local taxes. Property tax falls on unrealized capital gains and may be poorly related to cash flow. This makes payment of the tax more difficult for the retired and others who may be property rich but income poor.

The large lump-sum payments often associated with property tax make the magnitude of the tax more apparent and unpopular. Property owners often misunderstand the relationship between appraised value and tax and, therefore, misunderstand how changes in appraised value relate to changes in tax. This may result from public relations inadequacies or from taxing districts that take advantage of potential windfall situations arising from reappraisal. Nevertheless, the susceptibility of the property tax to this problem can be viewed as a disadvantage when compared to fixed rate taxes (such as sales and income taxes). This issue can be particularly salient in any reappraisal system that permits long periods of time between valuation adjustments. The longer or more irregular the period between reappraisals, and the more rapidly market conditions are changing, the greater the inequity and the larger the potential magnitude of changes in appraised value.

Often, there is no apparent relationship between property value and the governmental function being supported. For example, there are often complaints that the property tax should not be used to fund schools, because property is only indirectly related to school resource needs.

Appraisals or assessments may be perceived as inequitable. Fractional assessment ratios that differ from

class to class add confusion and foster this belief. In some cases, appraisals may truly be inequitable. Lack of adequate state or local oversight and demonstrably poor uniformity as measured by ratio studies are indicators of actual inequitable treatment.

Finally, property appraisal is a resource-intensive process compared to the voluntary reporting mechanisms of the income and sales taxes. This makes the property tax appear to be administratively cumbersome and expensive. However, the cost of tax administration consists of compliance costs as well as administrative costs. In property taxation, administrative costs are high. In income and sales taxation, compliance costs are high, so it is conceivable that total costs associated with income and sales taxes are even higher than total costs associated with property tax. Each type of taxation has innate administrative requirements and complexities. For example, voluntary or self-reported taxes involve audit and compliance functions that could also be resource intensive at the local jurisdiction level.

2.2.3 Ability to Pay v. Wealth

Historically, ownership of property has been highly correlated with, and at times was the only measure of, wealth. In modern society, however, income is considered the closest measure of ability to pay, and the link between property and wealth has become less obvious. However, one has only to note the availability of loans that use property or equity in property as collateral to recognize that the link to wealth and ultimately to income still exists. Businesses may be unprofitable and not currently generating income. Undeveloped land may be idle and have no income stream. Few would deny that either of these assets has value. However, property is owned in anticipation of future benefits, and courts have generally ruled in favor of zero or minimal value only when no future use can reasonably be anticipated. It is not unrealistic, therefore, to suggest that property still is a form of wealth and that only the property tax enables this wealth component to be used to pay for costs of government. As stated in section 2.2.1, without a property tax, some sectors of society with wealth would be exempt from participation in the costs of government. A balanced tax structure demands a property tax component.

2.2.4 Remedies for Problems with the Property Tax

Because there may be imperfections in using property wealth as a measure of ability to pay, exemptions,

circuit breakers, tax abatements, classification, tax and value limitation measures, frequent and regular reappraisal, and public relations have been used to alleviate the real and perceived public concern with the property tax. Advantages and disadvantages of these potential remedies are discussed at length in sections 5.3 and 5.4.

3. Tax Policy Analysis

Tax policy deals with public or governmental policy involving the levy and collection of taxes. Analysis of tax policy requires understanding of many associated issues.

3.1 Tax Policy Statements and Implementation

The assessing officer should be familiar with the specific language that formulates a policy, should understand the nature of the policy, and should work with legislative bodies and citizens' groups to explain the effects of various policies and whether these policies achieve the goals of a model property tax system (see sections 4 and 5). Policy statements are formal expressions of principles and goals of particular aspects of property tax. These statements typically are found in laws, administrative rules and regulations, and court orders, although legislative intent may also be considered in court rulings. Policies may be vaguely stated or poorly understood. Why was the policy designed? Who is helped or hurt by the policy? The assessing officer can play an important proactive role by assisting in answering these questions.

Assessors should take an active role in policy implementation. (See sections 2.1.6, 4.7, and 6 and *Standard on Public Relations* [IAAO 2001b].) Implementation occurs when a policy is administered. Implementation may involve resolution of ambiguities and policy-level decisions on the part of the assessing officer. For example, suppose a law is passed to grant homeowners a partial property tax exemption provided that they file an application with the assessor. The law probably would require that the assessor track the exemptions and may even establish criteria that the assessor must review (e.g., did the claimant own the property on the required date?). The law may be silent on other aspects of implementation. For example, should the assessor devote time and resources to making potential claimants aware of the exemption or helping them complete the forms? If so, how much time should be spent? Thus, even though the legislature has set the policy goal, action or inaction on the part of the assessor can be crucial to the success or failure of this particular policy.

3.2 Assessing Officers Role in Policy Analysis

Assessing officers should consult with their colleagues in other jurisdictions to ensure that all perspectives are taken into account and provide detailed rationales, pro and con, for taking positions for or against proposed policies. Policy analysis requires the compilation and interpretation of relevant information. Analysis must be highly objective to maintain credibility. Data maintained by assessment agencies at any level of government can help legislators and other policymakers understand the ramifications of policies. Assessment agencies have massive databases of quantifiable data that can provide essential information. Often, analysis involves the review of numbers and types of properties with particular elements or features. This can range from the number of farms with over 200 acres to the value of industrial pollution control equipment that could be lost from the tax base if a new exemption were enacted. The assessing officer needs to be capable of providing various types of quantifiable information from the database of assessment records. A computerized record system is the best means to facilitate this process. (See *Standard on Facilities, Computers, Equipment, and Supplies for Assessment Agencies* [IAAO 2003d].) Such a system should permit queries that allow reports to be created on demand.

Besides providing quantifiable data, the administrative experience of assessing officers and their understanding of the effects of tax policies on equity can help policymakers examine the implications of new policies. Assessing officers are often in the best position to understand and, therefore, take positions for or against proposed policies.

3.3 Key Policy Issues

3.3.1 Tax Incidence Issues

The issue of tax incidence is a key policy question in all areas of taxation. The economic theory of tax incidence is concerned with determining who bears the real burden of taxation.

Balanced-budget incidence refers to the effects of a tax combined with the expenditure program it finances. This kind of analysis is less appropriate for property tax policymakers, who are more apt to be interested in analyzing the effect of substituting one tax for another or raising or lowering the tax on selected taxpayers. For this purpose, the analysis of differential incidence is more useful, and further references in this standard will be to this form of incidence.

Incidence analysis compares the way taxes affect the distribution of income. Generally, the distribution of income resulting from a particular tax is compared with the distribution that would result from a flat rate, no-exemption income tax yielding the same amount of revenue.

Analyzing incidence is difficult because of the complex ways in which taxes are passed through to producers and consumers of goods and services. For example, property taxes on business property ultimately will be paid by individuals. The incidence may be on the owners of the business, its customers, the employees of the business (whose employment may be affected), or those who sell to the business.

When the incidence of a property tax falls on property owners, some of the tax is capitalized. Any portion of the tax that cannot be recovered will result in a commensurate reduction in the capital value of the property. That is, the net income (real or imputed) that can be received from the property is reduced by the amount of the tax; thus, the value of the property is reduced. Capitalization effects are difficult to measure precisely. For non-residential property, the greater the effective property tax rate, the greater the loss in value, all other things being equal. However, residential property values may be higher in desirable school districts which are supported by relatively high property taxes. When effective tax rates (or assessment ratios) vary considerably due to deliberate policy choices or through administrative inaction, capitalization produces winners and losers.

The economic incidence of the tax is rarely the same as the legal incidence. For example, sales and excise tax statutes often specify that the tax will be passed on to the purchaser, but if the tax results in decreased consumption of a given article, its price will decline and production of the taxed good will decline. Prices of the taxed good, competing goods, and the factors used to produce both will change. This will affect the incomes of business owners and workers, most of whom have no way of knowing the tax is affecting them. The process whereby the tax is transferred through the market system to someone other than the initial taxpayer is called tax shifting.

It is important for tax policy analysts and users of such information to distinguish between economic incidence analysis and the analysis of tax burden based on legal or perceived burdens. Appendix A shows the distribution of property taxes levied against different categories of property. Appendix C shows the taxes levied against families. These charts correctly illustrate burden but do not investigate ultimate economic incidence.

3.3.1.1 The Effect of Exemptions on Tax Incidence

The effect of exemptions should be analyzed continually from both legal and tax incidence perspectives. Exemptions tend to shift taxes from favored partially or fully exempt property to nonexempt sectors. Some exemptions are unavoidable because of federal prohibitions, difficulties in administration, or extreme inefficiency (e.g., governmental institutions taxing themselves). Other exemptions encourage or subsidize activities that otherwise would be provided by government. This is true of many nonprofit or charitable organization exemptions.

Although exemptions may be perceived as correcting inequities or regressivity, there often are unintended tax shifts that may add taxes to certain sectors. When governmental units have levy (rate) limits, narrowing of the tax base can also reduce overall available revenue for services. When levy rate limits are not restrictive, the narrowing will cause increased rates on nonexempt property. If exemptions fail to follow legal and constitutional protection criteria, discrimination actions may result.

Exemptions are examined more fully in section 5.3.1.

3.3.1.2 Horizontal Equity

Horizontal equity exists when taxpayers similarly situated bear the same tax burden after shifting is taken into consideration. The term similarly situated often implies having the same income, so, in a system that achieves horizontal equity, two taxpayers with the same economic conditions bear the same tax burden. With regard to property, the value of the property becomes a proxy for income and determines whether the taxpayers are similarly situated.

3.3.1.3 Vertical Equity

Vertical equity refers to any difference in tax burden borne by taxpayers who are not similarly situated.

Progressive tax systems, in which those who are wealthier pay a higher proportion of income, are not completely vertically equitable, but often are supported by policymakers. There is considerable debate about how much progressivity is good and how much regressivity should be accepted in any tax system.

3.3.1.4 Leased Property

There often is a perception that leased or rental property users pay no property tax because the tax usually

is billed to the property owner. This leads to the faulty perception that renters escape property tax. A corollary perception is that commercial property taxes translate into taxes on local consumers and therefore only add to the tax burden of homeowners.

Economic theory teaches that markets generally are efficient and market forces prevail, unless various impediments to competition or regulatory constraints prevent this. In other words, lessees pay taxes in the form of increased rent, unless the market will not bear the increase. In this case, the highest and best use concept (see IAAO 1990, 80-82) would suggest that rental of such property is not economically feasible and therefore not its highest and best use. Similarly, commercial property taxes may be passed on to consumers, employees, or owners of capital but, to the extent that some of the consumers are not part of a local community, the taxes tend to be partially exported, thus partially preventing increased taxes on local consumers. In today's marketplace, such export can even be global, with the international community in effect paying a portion of local taxes. In the same way, nonresident visitors contribute to local revenue through the sales tax.

3.3.2 Tax Burden or Incidence Measurement

Although measurement of who ultimately bears the burden of taxation is difficult and convoluted because of the complex way in which taxes are passed through to consumers, it is possible to analyze a tax system. In property taxes, it is useful to determine the amount or proportional share of the tax dollars levied on categories of property or classes of taxpayers and to adjust tax dollars levied for inflation to enable long-term analysis (Appendix A). It is also possible to express tax revenue as a percent of the personal income of the residents of a state or region (Appendix B). This represents an approximation of the burden imposed on residents of the area studied. Measures of tax capacity, such as those shown in Appendix B, table 1, column 3, allow for the possibility of taxing property or income of nonresidents. Capacity can be compared with actual collections to provide a measure of tax effort (see Appendix B, table 1 column 6). Such comparisons take into account different earning (income) potential in different regions, or, in the case of Appendix B, table 2, different populations.

The Government Finance Division of the Census Bureau of the United States Department of Commerce has numerous annually updated publications that provide data useful for tax incidence analysis. Before attempting such analysis, however, the user should

check with this agency to ensure that the most current or most recently revised data are being used.

In addition to federally compiled information that can assist in the measurement of tax burden, it is useful to analyze the taxes that would be paid by a hypothetical firm or family in various places. The District of Columbia annually compares the taxes that would be paid in the largest city of each state by hypothetical families of four with different incomes. A sample chart taken from this analysis is found in Appendix C.

State or local jurisdictions that maintain an analytical research staff can use this information to determine whether there is objective evidence that the property tax overall or on any one segment of property is too high (see section 5.5).

3.4 Elasticity

Elasticity relates to the relationship between increases in income and increases in tax. The property tax tends to be less related to changes in income and therefore relatively inelastic. Income and sales taxes tend to have greater elasticity. However, the ability of the property tax to provide for increased local governmental services in response to growth may depend on tax limitations in place. For example, if the rate of increase in overall property taxes is frozen at 6 percent per year, and there is no special allowance for new construction, rates will decline in fast-growing areas and jurisdictions relying on the property tax may be unable to fund services at the required level. This lack of elasticity would be in relation to growth in the tax base, rather than income, but would be analogous to the traditional, income-based concept.

3.5 Costs v. Benefits

Assessing officers should seek to provide the public with accurate information and dispel misconceptions regarding the property tax. Property tax is often subject to complaints of inequity or unfairness. Although there may be policy (statutory) or assessment-related causes for such complaints, often the complaints arise because of misunderstanding about the amount of the tax and the benefits being provided by this revenue.

Some taxes may be easily explainable as clearly related to a benefit. For instance, highway construction or maintenance appears logically funded by motor vehicle user taxes. Using similar reasoning, it is often suggested that property taxes are especially appropriate for financing services that protect or enhance the value of property. However, this argument is rarely

applied to other major taxes, such as sales and income taxes, and misses two issues. Property tax is particularly appropriate to funding the myriad of local units of government that provide services, often in small, localities. Additionally, the property tax provides a method for financing local government that taxes one element of wealth not addressed by other state and local taxes. As such, the property tax is an integral part of a balanced tax structure.

Failure to examine this aspect of criticism leveled at the property tax results in the establishment and promulgation of misconceptions about property taxation and its effects.

4. Components of a Model Property Tax System: Valuation

Property tax valuation systems should be designed to maximize equity among property taxpayers and visibility or openness, while minimizing administrative complexity and confusion. A market value standard is essential to achieving equity.

The assessing officer is most closely involved with aspects of property tax relating to how assessed values are estimated. Legislative bodies will establish the system, but certain elements tend to produce systems of higher quality in terms of administrative feasibility, uniformity, and equitable treatment of property. (See Appendix D.)

4.1 State, Provincial, and Local Responsibilities

State, provincial, and local governmental entities involved in property tax administration typically play different roles, especially with respect to valuation of different classes of property, quality control, and equalization. Direct assessment authority and responsibility generally is greater in Canadian provincial governments than in their United States state-level counterparts. In Canada, independent agencies or divisions of provincial government perform provincial assessment functions.

4.1.1 Valuation of Property

State administrative agencies typically play a limited role in direct property valuation but often provide oversight, guidance, and training. Local assessing jurisdictions usually have considerable autonomy and are usually responsible for the appraisal and assessment of most real and personal property.

A strong state role in property tax administration promotes the uniform application of property tax laws and can provide services that otherwise would be too costly for many local assessing jurisdictions.

4.1.1.1 State Agency Valuation Roles

States should have mechanisms to provide the financial assistance necessary to ensure that local jurisdictions have adequate and well-trained professional staffs, accurate cadastral maps and records, and the greatest feasible degree of computerization. States should also provide or coordinate broad-based educational programs designed to ensure adequate appraisal and administrative skills among local assessment personnel. State administrative agencies occasionally fulfill all appraisal and assessment functions. The typical model, however, is for state agencies to provide guidance to local assessors in the form of rules and regulations, procedures, manuals, technical assistance, and sometimes, financial assistance. Because of their broad jurisdiction and viewpoint, state agencies are in the best position to provide these kinds of assistance. In addition, in many states, state-level assessment administration agencies have much of the responsibility for the valuation of public utilities, mineral properties, industrial properties, farmland, and railroads. This is a desirable model, because the property being appraised often is highly complex and multi-jurisdictional and consolidation of appraisal by one entity (the state) can enable development of greater expertise because of greater focus, achieve an economy of scale, and simplify appeals processes.

4.1.1.2 Local Assessing Officer Valuation Responsibilities

Local assessment systems should be administered in a professional, equitable, and open manner. The local assessing officer typically is responsible for the appraisal of real and personal property and, in some areas, is also responsible for the appraisal of public utilities and railroads. To accomplish these responsibilities in a fair and professional manner, an adequate budget, well-organized and trained staff, sufficient computing resources, accurate and accessible property descriptions and characteristics, effective appraisal programs, positive public relations programs, and accessible and effective appeals procedures are necessary.

4.1.1.3 Sales Chasing

Local assessing officials should avoid the practice of sales chasing, and state oversight agencies should

monitor and discourage this practice. According to the *Standard on Ratio Studies* (1999, section 10), “Sales chasing is the practice of using the sale of a property to trigger a reappraisal of that property at or near the selling price. Sales chasing causes invalid uniformity results in a sales ratio study, and causes invalid appraisal level results unless similar unsold parcels are reappraised by a method that produces the same percentage of market value (appraisal level) as on the parcels that sold.” Further, unless similar unsold parcels are reappraised at the same level as sold parcels, sales chasing causes inequitable treatment of taxpayers by shifting the tax burden to taxpayers who have recently purchased property. Ideally, local assessing offices should maintain sales prices in a database used to track the need for reappraisal and to update the assessing office’s valuation model. Then, all parcels in a property class in a given area should be reappraised simultaneously using the updated valuation model. This practice will maximize the equity of the property tax system and help maintain public confidence in the system. States that use ratio studies for equalization purposes should test for sales chasing and correct it when necessary to avoid erroneous equalization decisions.

4.1.2 Equalization of Property Values

Equalization of property values is an important step that ensures uniform treatment of groups or classes of property. Equalization functions ensure that state aid to local jurisdictions is apportioned according to a more consistent estimator of value. Equalization also can ensure equal effect of exemptions and statutory levy rate limits. In equalization, broad adjustments to values, tax rates, or funding distribution may be made to correct for widespread assessment discrepancies that otherwise would create inequity among jurisdictions. Equalization does not include adjustments to the values of individual properties that result from taxpayer appeals or review of the rolls by assessing officers.

4.1.2.1 State and Local Equalization Roles

Local boards of review and equalization provide a valuable check and balance for the assessment process and should be encouraged to take an active role. Local jurisdictions often include administrative agencies, such as county review boards and county commissioners, that oversee and review assessed values estimated by assessing officers. Authority of such boards can be broad, including the ability to adjust individual or entire class assessments. In the broadest cases, these boards play an equalization role equivalent in their jurisdiction to state-level equalization. Such equalization

may be based on a review of ratio study information provided by the assessing portion of the jurisdiction, or independent ratio studies may be conducted.

State administrative agencies often perform equalization as part of general oversight functions. State equalization can merely serve as a check and balance on local equalization. However, when the state has direct assessment responsibilities for public utility, railroad, and other property types, state equalization can serve the added function of eliminating inequity between locally and state-assessed property. States should also take an active role in equalization when properties subject to taxation by a local taxing district are assessed by more than one local assessment agency. For example, if a school district is in three counties and each county has assessment responsibility for only the property within the portion of the school district located in its own county, assessment discrepancies may go uncorrected unless a state administrative agency performs an equalization function.

An alternative to this model would be to require local assessment jurisdictions to extend their boundaries to equalize property values in multi-jurisdictional taxing districts. For example, if a school district is primarily in County A, but extends into a small portion of County B, the assessor in County A could assess property in the entire school district, and equalization could be done locally. In practice, this is a cumbersome model resulting in confusion due to different values being set on one property by different responsible jurisdictions. This confusion will extend into the appeals and equalization processes and will reduce the understandability of the property tax system. Such a model is to be avoided.

4.1.2.2 Methods of Equalization

Whether accomplished at the state or local level, equalization generally takes one of two forms: direct, involving adjustments to previously determined property values, and indirect, involving adjustments to tax rates or funding distributions.

4.1.2.2.1 Direct Equalization

Administrative entities that order adjustments to local values should do so only after notifying local assessing authorities and providing an opportunity for locally initiated corrective action. Many states and most local jurisdictions practice some form of direct equalization. The process typically uses ratio studies to identify property types that are treated inequitably. Performance or procedure audits may also be used,

especially for classes of property not generally amenable to ratio study analysis. Results are converted into adjustment factors and adjustments are ordered to previously established appraised or assessed values. This method has the advantage of producing results that are visible to the taxpayer and will therefore more clearly reduce perceived inequities. Guidelines provided in the *Standard on Ratio Studies* (IAAO 1999) should be used to determine whether assessment levels differ sufficiently from statutory requirements to trigger equalization. Because local reappraisal, if done properly, results in more equitable appraisals than general adjustment factors ordered by an administrative entity, local assessing authorities should be given a chance to perform a reappraisal before adjustments are ordered, unless time constraints preclude such action.

4.1.2.2.2 Indirect Equalization

Indirect equalization usually involves computation of hypothetical values that represent the analyzing agency's best estimate of assessed values given the statutorily required level of assessment as of a designated valuation date. For example, if there is \$75 million in assessed value of residential property in a jurisdiction and the equalizing agency's ratio study shows an assessment level of 75 percent but the statutorily mandated ratio is 100 percent, an equalized assessed value of \$100 million could be computed ($\$75 \text{ million}/0.75$). Use of this computed value would enable equitable treatment of jurisdictions that might assess at different levels, which, although internally consistent, could create inequities in state funds distributed on the basis of assessed value. An alternate approach to indirect equalization is to adjust the rate or levy to be applied to different properties. If, for example, the goal is to have a uniform property tax contribution of 0.5 percent of market value for school funding, this rate might be adjusted to 0.625 percent in a jurisdiction found to be assessing at 80 percent of market value ($0.5/0.8$).

Either of these indirect systems is adequate to provide for equalization. However, these adjustments are relatively invisible to taxpayers and often lack some of the checks and balances associated with direct changes in assessed values. It is important, therefore, to ensure that assessments actually need adjustment. Statutes or administrative rules should require the agency imposing the adjustment to meet the burden of proof of a need for equalization.

4.1.3. Alternatives to Equalization

As an alternative to direct and indirect equalization, some oversight agencies have authority to approve or

disapprove the locally developed assessment roll. This is done to ensure compliance with state legal standards for completeness, accuracy, uniformity, and reliability (See *Standard on Administration of Monitoring and Compliance Responsibilities* [IAAO 2003b]).

4.2 Market Value as a Basis for Taxation

To maximize fairness and understandability in a property tax system, assessments should be based on current market value of property.

4.2.1 Advantages and Disadvantages of Current Market Value

The principle underlying the property tax is that it is an ad valorem tax, meaning that the tax is based on property value. In a dynamic economy, property values constantly change. Values in one area may increase, whereas those in another may decrease or stabilize. Property taxes then shift to areas with increasing wealth as measured by property value. Only a system requiring current market value acknowledges these changes in local economies and the distribution of property-related wealth.

Assessing property at current market value maintains a uniform relationship between property values and property taxes. Also, current market value requires market-based appraisals and imposes an objective constraint on what otherwise would be perceived as a highly subjective process. Under a current-market-value standard, it is easier for the public to understand whether they are being treated fairly.

Current market value is attacked primarily on the basis of an ability-to-pay argument. It is often argued that if values rise disproportionately rapidly in a retirement community, where most of the property owners are on fixed or limited incomes, taxes may force people from their homes. This argument primarily expresses social, not economic, policy concerns. From an economic standpoint, property owners with higher values have greater wealth in the form of unrealized capital gains, which may be convertible to income in various ways, some of which do not require loss of property. From a public policy standpoint, however, the burden of increasing property taxes fueled by increasing values can be alleviated through specific, selective exemptions or other controls. (See sections 5.2.2 and 5.3.) Care must be taken to avoid a system with an overly complex maze of exemptions and limitations. In such a system, it becomes impossible to understand which sectors actually receive a benefit, and the principle of ad valorem taxation is soon lost.

4.2.2 The Principle of Annual Assessment

Current market value implies annual assessment of all property. This does not necessarily mean that every property must be reappraised each year. In annual assessment, the assessing officer should consciously reevaluate the factors that affect value, express the interactions of those factors mathematically, and use mass appraisal techniques to estimate property values. Thus, it is necessary to observe and evaluate, but not always to change, the assessment of each property each year in order to achieve current market value. It is recommended that assessing officers consider establishing regular reappraisal cycles or at least appraisal level and uniformity (vertical and horizontal equity) thresholds that trigger reappraisal. (See *Standard on Ratio Studies* [IAAO 1999].)

4.2.3 Alternatives to the Market Value Standard

Non-market value systems should be rejected as a model because they deviate from the basic principle of ad valorem taxation and tend to be less equitable for all property taxpayers. Two major valuation systems that differ from current market value are in place in portions of the United States. In many areas, market value is established as of a base year and then frozen for all or a portion of the property. This may be done as part of cyclic reappraisal in which 20 percent or 25 percent or some other proportion of the property is reappraised, and the remainder has its value frozen until its reappraisal turn arrives. Occasionally, base years are established for all property. In this case, changes may be permitted at a point in the future (say, every eighth year) or only on the sale of a property. This latter approach results in what is known as acquisition value and is most widely applied in California. The only way to trigger reappraisal (aside from a small allowable annual adjustment) in an acquisition value system is the sale of the property. Therefore, any semblance of equitable treatment related to value is lost. Studies in California have determined that fifteen years after implementation of an acquisition-value-based system, it would not be unusual, for example, for two identical, side-by-side properties to have legally correct values that differ by 500 percent (O'Sullivan, Sexton, and Sheffrin 1995). Because of these defects, public understanding of who actually benefits and to whom taxes are shifted is extremely limited.

Acquisition value systems also decrease mobility because the most recent movers to or in any area pay the largest tax share. Although research has shown that systems based on acquisition value can protect

senior citizens who tend to sell property and move infrequently, this same protection can be afforded directly by programs such as circuit breakers, which are designed specifically to aid target groups. Thus, with a circuit breaker program, property tax relief goes to the defined group designated by policymakers as needing assistance. Any tax reduction provided to this same group under an acquisition value system is coincidental. Acquisition value makes even less economic sense for businesses because new businesses are presented with a competitive disadvantage because of substantially higher property taxes.

Furthermore, once such a system becomes entrenched through long-term application, it becomes virtually impossible to eliminate disparities that can only grow worse over time. A return to a system based on market value inevitably would cause major intra-category tax shifts; therefore, the prospect of such reform ceases to be available after a few years of high inflation.

4.2.4 International Alternatives to Market Value of Real Property

Although many nations other than the United States and Canada use a form of real property taxation, there are significant differences in the classes of property to which the tax is applied and in the determination of value.

For example, in many of the transitional former communist countries, the property tax is based on area rather than value. This is true for taxable property in Albania, Croatia, Poland, and the Czech Republic to name just a few examples. Value is more likely to be the basis in other European nations with longstanding property tax systems. Value does not necessarily imply market value. In Austria, France, and Germany, for example, the basis can involve capitalized rent or fire insurance value. The current system in use in Great Britain assigns property to value bands, with properties assigned to different bands or value ranges based on 1991 prices. Lower value bands pay lower tax rates, but the system is generally regressive because all property with a 1991 value over £320,000 (approximately \$584,200 U.S.) is charged the same amount of property tax.

The greatest consistency among these various property tax systems is that the land component is taxed. Because the determination of tax rate and tax base is so disparate, comparisons between nations are difficult at best. Useful and detailed information on specific features of property tax systems in many nations is found in *An International Survey of Taxes on Land and*

Buildings (Youngman and Malme 1994). More current information and references are found in *A Survey of Property Tax Systems in Europe* (R. Almy 2003).

4.3 Quality Assurance

Quality assurance is an important aspect of every valuation system. Specific procedures should be established, and staff should be strongly encouraged to review all aspects of their work to ensure compliance. Lack of effective quality assurance can result in minor or major gaps, ranging from loss of data to failure to recognize or correct inequities.

4.3.1 Internal Edits and Review

Every assessment jurisdiction should establish procedures for internal review of work product. Supervisory review of appraisal and assessment work as well as ratio studies, procedure reviews, performance audits, and peer reviews can be used and should be considered. This is particularly important for appraisals, which may otherwise be attacked as subjective or not well developed. Internal review includes establishment and review of quality and quantity performance criteria. Numerous computer edits are needed to ensure that all accounts are in balance and to enable data entry errors to be caught and corrected.

4.3.2 Ratio Studies

Ratio studies are effective components of a quality assurance system and should be conducted at least annually. Ratio studies should be used to emphasize horizontal and vertical equity of assessments as well as overall level in comparison to statutory requirements. When used by a local assessing jurisdiction, ratio studies can be designed to measure the quality of assessments in neighborhoods or for specific types of property, as well as to provide overall quality indications. State agencies typically use ratio studies as part of technical assistance, oversight, or equalization roles. (See *Standard on Ratio Studies* [IAAO 1999].)

State agencies responsible for conducting ratio studies for local jurisdictions should publish the results of such studies. Published reports should be readily available to all interested parties and include narrative discussions of the method used as well as statistics that measure level and vertical and horizontal equity. Published ratio studies should clearly define their purpose to maximize their usefulness to prospective users.

4.3.2.1 Horizontal Equity of Assessments

This type of equity typically is examined in two ways. First, are all of the properties of a particular type (homes, farms, businesses, and so on) appraised at the same levels with respect to market value or at different rates or ratios of market value? In other words, if the appraisal goal is to appraise all single-family residential property at 80 percent of market value, are most homes close to this level? The coefficient of dispersion (COD), determined as part of a ratio study of each class of property, will guide the assessing officer in understanding the degree of such horizontal equity. (See *Standard on Ratio Studies* [IAAO 1999].)

Second, if groups or classes of property are analyzed separately, will the statistical analysis indicate that the groups or classes of property are being assessed at one consistent level? For example, is residential property at 80 percent, but industrial property at 90 percent of market value? Is residential property in City A at 70 percent, but the same class of property in City B at 60 percent? This type of equity is best understood by assessment-level statistics determined from area- or class-specific ratio studies.

4.3.2.2 Vertical Equity of Assessments

Vertical equity asks whether properties of different values are assessed at different levels. For example, are low- and high-value single-family residential properties appraised at the same level of assessment? Although there is no precise relationship between property ownership and ability to pay taxes, there is at least an indirect one between property ownership and wealth. If higher value properties are appraised proportionately lower than lower value properties, the system is said to be regressive. The opposite case would be considered progressive. The price-related differential (PRD) can provide an indicator of this type of inequity. Statistical tests can be used to determine more precisely the degree of vertical equity. (See *Standard on Ratio Studies* [IAAO 1999].)

4.3.3 Data Availability

Legislative remedies should be sought if adequate sales disclosure laws do not exist. Sales information is critical for all three approaches to value (income, cost, and sales comparison, as described in *Property Assessment Valuation* [IAAO 1996]). Although sales may need to be properly screened and verified regardless of source, legally mandated disclosure of sales prices to local and state assessment jurisdictions is necessary to ensure the quality and availability of this information.

High-quality appraisals and assessments require sufficient high-quality data. For agricultural land, periodic surveys may be used to establish productivity and expenses. Surveys can also be used to establish lease information for use in valuing commercial property. Statutes should establish requirements for property owners to provide necessary information and reasonable access. Such statutes should include provisions for arbitrary assessments or limitations on appeal rights if inaccuracies result from failure to provide information or access. The statutes, to the extent practicable, should also provide for taxpayer confidentiality to protect taxpayer privacy, and encourage compliance. The statutes, to the extent practicable, should provide for taxpayer confidentiality not only to protect taxpayer privacy but also to encourage compliance.

4.3.4 Performance and Procedure Audits

Reviews of appraisal and assessment procedures should be done periodically. This is important whether in-house staff or contractors perform these functions. The process should include a review of documentation and procedures, as well as actual appraisal results. If property characteristics are being captured, a sample should be audited to ensure accuracy. Performance and procedure audits can be conducted by specialized internal staff, governmental agencies, or independent contractors who should be separate from those hired for the appraisal or data collection work.

4.3.5 State v. Local Quality Assurance Roles

State assessment agencies may be required to review the work of local assessing jurisdictions. This may be in response to ongoing audit requirements, legislative mandates, local jurisdiction requests, or taxpayer complaints. Often, states have authority to order reappraisals to correct assessment equity problems. If a review or reappraisal ordering function exists at the state level, responsible agencies should seek authority to conduct reviews or order reappraisals based on long-standing failure to meet ratio study standards for horizontal and vertical equity. Reviews or reappraisal orders should also be triggered if local jurisdictions fail to meet reappraisal timelines, to maintain adequate property records and maps, or to meet other indices. (See *Assessment Practices: Self Evaluation Guide* [IAAO 2003].) In any case, the oversight agency should establish clear goals, guidelines, standards, and objectives beforehand to minimize misunderstandings and better achieve desired results. Agencies that investigate taxpayer complaints should develop specific criteria to define the extent of the

investigation and should develop procedures to narrow and focus such complaints.

Local assessors should establish internal quality assurance procedures, which should include review of all data being collected, field testing of valuation models, review of values generated by models, and procedures for correcting data and updating models and values (IAAO 1990, chapter 21).

4.4 Appraiser Qualifications

Ensuring a high-quality valuation system requires highly skilled and trained professional staff. Assessors may need legislative direction or administrative rules and regulations to ensure that this objective can be promoted and achieved. Accordingly, states and other governments have implemented legislation requiring practitioners in all branches of property appraisal to demonstrate appropriate qualifications before being allowed to practice independently, to maintain and improve their skills used in the course of practice, and to conduct themselves in accordance with the *Uniform Standards of Professional Appraisal Practice (USPAP)* (Appraisal Foundation 2004) and equivalent standards that may be in place outside the United States. Such legislation may establish different qualifications depending on the type or value of property to be appraised and the purpose of the appraisal. Some states require assessing officers to obtain a license, certification, or professional designation (such as the IAAO's Certified Assessment Evaluator [CAE] or designations awarded by states and other professional organizations). Legislation regulating independent appraisers, such as fee or contract appraisers, should be coordinated with legislation affecting assessing officers. When similar qualifications exist, transferability of experience, credentials, and course credits should be permitted. Objective standards should be developed and used to evaluate experience, credentials, and educational requirements. (See *Standard on Professional Development* [IAAO 2000].)

4.5 Land Data Systems

The assessor must maintain high-quality land records and an accurate inventory of property. Collection and maintenance of land data are expensive but are critical parts of any property tax valuation system. By establishing multipurpose cadastral systems, many different public officials or agencies can make use of the information which may help to defray the costs of data collection and management. Multipurpose systems can be computerized and can become extremely

interactive providing information on the relationship between location and other property characteristics or influences on value. Geographic information systems (GISs) exemplify this multipurpose principle. (See *Standard on Manual Cadastral Maps and Parcel Identifiers* [IAAO 2004] and *Standard on Digital Cadastral Maps and Parcel Identifier* [IAAO 2003c].)

4.6 Appeals

Appeals can function as part of the external quality assurance program of an assessing jurisdiction. Often, problems that may extend beyond the property on which the appeal is filed will be uncovered and potentially serious inequities quelled. Assessment personnel should view the appeals process as a positive element of quality assurance in the assessment system.

4.6.1. Appeals Systems

Appeals systems should be designed to facilitate the taxpayer's right to appeal. To do this, the process should be clearly spelled out in a written brochure or other document that can be given to the taxpayer. Before filing a formal appeal, the taxpayer should have an opportunity for informal discussion, which may resolve many issues and may even obviate the need for the appeal to proceed. To the extent practical, the taxpayer should have access to all records pertaining to the valuation of the property in question. Each assessing officer should become familiar with statutory requirements that may make some of this information confidential. Aside from such restrictions, information should be willingly and openly shared, and this sharing should include information on sales used as comparables. (See *Standard on Assessment Appeal* [IAAO 2001a].)

4.6.2 Planning and Staff Allocation

Adequate resources must be provided to defend values. The need for response to appeals typically increases during reappraisal years or periods with rapid property value inflation. Proper planning and staff allocation must be done to ensure sufficient resources to address the anticipated higher than normal number of appeals.

4.6.3 Taxpayer Representation

Appeals typically involve two types of assessment issues: appraisal and legal. Individuals trained and educated in ad valorem tax procedures are considered qualified to provide professional representation for taxpayers in the early stages of the appeals process provided that appraisal issues are the focal point. Such

representation does not constitute the unauthorized practice of law. Valuation questions often involve legal issues. When issues of law are in question, both the taxpayer and the assessing agency are advised to retain trained legal practitioners.

4.7 Public Relations

Assessing offices should maintain strong public relations programs. Public relations is a critical aspect of every property tax valuation system. Strong public relations programs will help to alleviate taxpayer suspicion regarding reappraisal and other assessment activities. Effective public relations includes active communications, open access to records (to the extent allowed by law), prompt attention to inquiries, periodic press releases, up-to-date jurisdictional web sites, participation in community speaking opportunities, and an information program designed to enhance public understanding of assessments and property taxes. (See *Standard on Public Relations* [IAAO 2001b] and section 6.)

5. Components of a Model Property Tax System: Taxation

The property tax is a key component in a balanced and equitable tax structure. This tax can provide stable and economically efficient revenue, especially for local units of government, and can be accepted provided that states frame their property tax statutes to ensure the highest possible degree of equity among property taxpayers.

The assessing officer functions more as administrator and less as policymaker in determining how taxation will occur under the property tax system. However, the assessment function is inextricably tied to the taxation function (one would not exist without the other). The assessing officer, therefore, often will be the first to be approached when system problems and confusion arise, regardless of whether the problems are related to valuation. As the professional in the best position to understand property taxes, the assessing officer should completely understand the system established by legislative bodies. The assessing officer must also understand the elements that tend to produce property taxation systems of higher quality, in terms of administrative feasibility, uniformity, and equitable treatment of property. Because the property tax rarely exists as the sole source of revenue for any unit of government, the assessing officer should learn the general strengths and weaknesses of other taxes and fees. This knowledge will enable the assessing officer to participate more fully in discussions relating to the property tax and potential alternatives.

A framework for general tax system design criteria and the evaluation of such a system is found in Appendix D.

5.1 Visibility of Property Tax System

The workings of a property tax system should be visible to taxpayers. This means that the taxes being generated by the system should clearly be tied to the taxing units of government that use this funding source. Overall increases or decreases in property taxes thereby become a function of the changing needs of these units of government, while the assessing officer's role, which is only to determine the proper distribution of the tax, is emphasized.

5.2 Property Appraisal v. Property Tax

One of the most common misunderstandings about the property tax is the supposition that the tax is strictly value-driven and, therefore, that a 10 percent increase in appraised or assessed value must translate into a 10 percent increase in tax. Failure to understand and explain the fallacy of this perspective leads to placement of blame for all property tax increases squarely (and unfairly) on the assessing officer.

The state legislature establishes the framework for the distribution of property taxes by providing for classification, exemption, and valuation. Statutes may also control the magnitude of the property tax. By appraising property equitably and uniformly and in accordance with statutory guidelines, the assessing officer ultimately is responsible for the distribution of the property tax burden, not the magnitude of the tax. If the market value of lakefront lots doubles, but the value of all other property in the jurisdiction remains constant, these lots will bear a higher proportional share of the total property tax for the jurisdiction. That is the principle of ad valorem taxation at work. It is possible, if the system is rate-driven, that the increase in value will translate directly into higher taxes, raising the total tax charged, not just the share levied against the lakefront lots. In contrast, in a budget-driven system, higher values force rates downward and offset rising assessments. In this type of system, increases in the total amount of property tax result only from increases in budgets submitted and approved by taxing jurisdictions. This is the preferred model.

5.2.1 Budget- v. Rate-driven Property Tax Systems

Taxing units of government operate with dollars generated from property tax (although other revenue sources

often are available, they are not the subject of this discussion). The formula used to calculate these taxes takes one of two forms:

A. Budget-driven:

$$\text{Rate} = \frac{\text{dollars budgeted from property tax}}{\text{taxable or assessed value}}$$

or

B. Rate-driven:

$$\text{Dollars budgeted from property tax} = \text{rate} \times \text{taxable or assessed value}$$

Formula A assumes that the taxing unit starts with a budget in dollars and has subtracted all non-property-tax sources of funding. In this case, the rate is merely a mathematical result and floats upward or downward, depending on the assessed value in the unit of government. In this usage, rate is synonymous with levy, which may be expressed using percentages or mills. Formula B assumes that the taxing unit needs as much money from property tax as a certain fixed or maximum rate will generate. In this case, increases or decreases in assessed value directly affect the amount of money the unit of government can budget from property tax.

Assessing officers should discourage or offer alternatives to rate-driven property tax systems. Taxing units that generate revenue as described in Formula B justify taxpayer fears that reappraisal will probably raise their taxes and give credence to the idea that the assessing officer is controller of the magnitude, not just the distribution, of the property tax. Such taxing units are also able to hide windfalls they may reap by arguing that they did not increase their rate of taxation. Rate-driven property tax systems fail to meet the test of open and visible property taxation.

5.2.2 Truth-in-Taxation

Truth-in-taxation systems should be promoted whenever possible. Also known as truth-in-millage, truth-in-taxation systems place a notification burden on taxing units of government that are planning to increase rates or dollars to be charged. Such procedures reduce the likelihood of reappraisal-related revenue windfalls because the windfall becomes highly visible. In a truth-in-taxation system, clear, large newspaper advertisements or mailed individual notices are used to inform taxpayers of an impending increase in the rate of taxation or dollar amount to be charged. Usually, the effect of the increase on typical taxpayers must also be shown. Occasionally, such systems incorporate

rollback elections or override (approval) elections. A rollback election permits voters to negate seemingly excessive increases, while an override (approval) election permits voters to approve increases over a base allowance. Truth-in-taxation systems increase the openness and visibility of the property tax and place the burden of explaining increases on units of government wanting additional revenue. In developing and adopting a truth-in-taxation system, it is important to recognize that the more successful systems include clear individualized notices of the effect of proposed budget changes on each taxpayer's property. Systems requiring only generic notices in newspapers tend to be confusing and often do not succeed in involving taxpayers in the budget process, in promoting accountability, or in effectively explaining budget increases.

5.3 Controls on the Incidence of Property Taxation

Legislative bodies often provide measures to shift the property tax from certain groups of taxpayers. Such measures nearly always increase the property tax on non-favored groups and generally should be limited. Failure to understand this aspect of tax-shifting measures results in a hodgepodge of controls, the true effect of which becomes lost and may even shift more taxes to favored groups.

5.3.1 Exemptions

Legislative bodies should be advised to exercise caution in enacting exemptions. Property tax exemptions are subsidies to certain owners or for certain uses of property to encourage publicly desired objectives. A key principle of property tax systems is that all property is taxable unless it is specifically exempt, and exemptions are to be narrowly construed. Some exemptions, such as those provided to government property and public schools, may be conceptually supportable because the entities involved might otherwise increase taxes to pay property taxes. Other exemptions, such as for household goods, often are granted because assessment is deemed administratively infeasible.

Property tax exemptions generally take the form of partial or full exemptions that apply to various classes or types of property and lessen the taxes levied on these classes or types. In addition to complex and difficult to understand tax shifts, exemptions can decrease the tax bases available for local units of government and may increase tax rates. As a rule of thumb, no exemption should be granted unless it will be beneficial to a substantial segment of the affected population and unless all similar properties or similarly situated tax-

payers are accorded the same treatment. Any proposed exemption should be analyzed to determine which groups may be helped or hurt (intentionally or inadvertently) and whether the benefits of the exemption are significantly greater than any revenue loss or tax shift. Exemptions with conflicting objectives are particularly suspect and rarely accomplish their original goals.

Property tax systems fraught with numerous exemptions typically have high rates, which are necessary to raise revenue with an artificially constrained tax base. High rates lead to additional complaints about the property tax. Numerous exemptions lead to increased administrative costs, and the property tax system becomes more questionable and distorted from the original ad valorem principle.

5.3.1.1 Partial Exemptions

The assessing officer should review the structure of partial exemptions with legislators proposing such exemptions. Partial exemptions are those in which a percentage or fixed dollar amount of value is removed from the otherwise taxable value of a property. Fixed dollar exemptions, such as an exemption for the first \$10,000 of value of a primary residence, grant proportionately more relief to lower-value property, where the fixed amount may make up a significant percentage of the total taxable value. However, the effect of such an exemption is eroded by inflation when market values are increasing. Frequent legislative adjustment is necessary to maintain benefits at originally intended levels. Percentage exemptions overcome this problem but give more dollars of actual tax relief to higher-value property. Often, hybrid exemptions, combining dollar and percentage limits, may be used to focus the exemption where the legislature deems the relief is most appropriate.

The most common partial exemptions are homestead or homeowner's exemptions, in which some portion of residential property assessed or appraised value is exempt (usually restricted to the primary residence). A large number of states grant such exemptions, sometimes restricting eligibility to individuals meeting certain age or income criteria. Residential property exemptions often are supplemented by circuit breaker programs, which sometimes are used instead of the exemptions. (See section 5.3.5.) Sometimes states reimburse local governments for revenue that may be lost or taxes that may be shifted to other taxpayers as a result of residential property tax exemptions. Valuation of farmland on the basis of use or productivity value generally has the effect of providing a partial exemption, but often no percentage or dollar adjustment can

be clearly determined. Therefore, the exemption is somewhat hidden.

Properties with partial exemptions require special equalization attention or other oversight to ensure equitable treatment.

Preferential treatment for farmland and open land may be abused if the land is held for speculative purposes and is only incidentally used for farming. Assessing officers should make legislative bodies aware of this issue and should seek greenbelt or rollback legislation under which land that is changed from farming to development use within a certain period must pay a penalty related to the value that was not assessed under the farm use categorization.

5.3.1.2 Full Exemptions

Full exemptions are granted to property, such as federal government property, that may be subject to constitutional immunity from taxation. Aside from United States constitutional restrictions, in most state constitutions, the authority to grant exemptions is reserved for the legislature. Most states grant full exemptions to property owned by political subdivisions and units of government, religious and educational institutions, and charitable or benevolent societies. Aside from these common exemptions, innumerable broad or narrow special-purpose exemptions are available. The most common of these are for various personal property components, ranging from full exemptions for all personal property to business inventory exemptions to exemptions that apply only to equipment used in farming or other specified tasks. Some exemptions require highly specialized statutory definitions to prevent unintended over-broadening. For example, the difference between a qualifying charitable organization and a nonprofit corporation that was not intended to enjoy the charitable exemption must be made clear.

Because of the conflicts and confusion arising from numerous exemptions and because taxpayers and legislators should understand the effect of the exemptions, all exemptions should be reviewed at regular and frequent intervals. Where practicable, each owner of exempt property should be required to apply for the exemption annually. Each taxing or assessment jurisdiction should prepare a list of exempt properties each year showing the name of the owner, the location of the property, the size and value of the property, and other relevant information.

5.3.1.3 De Facto Exemptions

Property tax systems inevitably include some property that is difficult administratively or politically to assess properly. Personal property, for example, may be taxable but often is underreported, and few assessors have sufficient resources to audit comprehensively. Residential property, on the other hand, is highly visible and represents a politically active sector. Often, states that do not provide homestead exemptions or other protection for residential property find de facto exemptions, in the form of systematic underassessment, substituted for statutorily allowed exemptions. Assessing officers recognizing problems of this nature should work with legislators to develop corrective procedures or guidelines. Often, exemption may be the only solution and at least has the advantage of making visible an otherwise hidden tax shift.

5.3.1.4 Controlling Exemptions

Assessing officers should encourage legislators to enact sunset provisions when exemptions are passed. Once granted as a result of legislative action, exemptions tend to become entrenched and thought of as rights related to property ownership. Unless specific inequities related to a previously established exemption are discovered, legislative review of existing exemptions is unlikely without sunset provisions. Such provisions specify a date in the future after which the exemption will cease to exist. Although there may still be a need for the exemption, the expiration provision makes the exemption more visible and presents an opportunity for future legislatures to review and recertify each exemption. Sunset provisions should not apply to constitutionally mandated exemptions (prohibition on taxation of federal property, for example). Regardless of the existence of sunset provisions, assessing officers should conduct ongoing analyses of the effect of each exemption, so that information will be available in the event of legislative review.

5.3.2 Classification of Property

Classification is similar to partial exemption in that certain types of property are given favored assessment treatment. However, classification differs from exemption in that application generally is not required, because the assessor generally decides to which class a particular property belongs and automatically applies an assessment ratio to produce the required fractional assessment. As an alternative to classification that alters the assessment, some classification schemes alter the tax rate. For example, in some states low-income elderly homeowners are not required to pay the tax for

school bonds or for voter-approved overrides permitting taxing jurisdictions to exceed budget or rate limits. The rate paid by these taxpayers would, therefore, be lower, although their assessments (values) would be unchanged. Although variable tax rates also can add to complexity and confusion, they maintain the independence of the appraisal and taxation processes and may, therefore, have an advantage over classification schemes for jurisdictions that do not have overall or rate uniformity requirements.

Classification does afford some protection from reappraisal effects for protected classes. However, classification violates the economic principles of ad valorem taxation because properties tend to be taxed at more or less favored percentages of value, based on political, not economic, conditions. Classification may also violate federally or constitutionally mandated protection from discrimination. For example, judicial decisions related to the federal *Railroad Revitalization and Regulatory Reform (4-R) Act of 1976* (49 USC §11503) prohibit classification that would produce a lower assessment ratio for commercial and industrial property in comparison to the property of railroads, motor carriers, and airlines. In addition, welcome stranger assessments, in which higher values are placed on the newest property owners and which result from classification or de facto classification, generally have been found unconstitutional (*Allegheny Pittsburg Coal Co. v. Webster County Commission*, 488 US 336, 109 S.Ct. 633 [1989]). An exception is the Supreme Court's decision regarding California's Proposition 13 in *Nordlinger v. Hahn* (505 US 1 [1992]). Here, the Court ruled that California's welcome stranger scheme was constitutional. A major difference between the California and West Virginia cases, however, was that in California, the system was authorized by the state constitution; whereas, in West Virginia, welcome stranger assessing was instituted by a local jurisdiction and conflicted with uniformity provisions found in the West Virginia Constitution.

Classification also adds a significant layer of complexity and leads to added confusion about the property tax. This effect worsens as the number of classifications and variance in the percentages to be assessed grows. A system with three classes of property and assessment fractions ranging from 15 percent to 30 percent of market value may not be too difficult to understand. Some systems, however, have fifteen or more classes and fractions ranging from 3 percent to 50 percent of market value. Systems of this type should be avoided and steps should be taken to simplify whenever possible. Classification violates the visibility standard

providing instead a less open system in which assessment equity errors are easier to hide and more difficult to discover. Numerous studies indicate that appraisal equity, as measured by such indicators as the coefficient of dispersion (COD), improves significantly when governments eschew fractional assessments and classification schemes for full market value. Finally, classification obscures the effective tax rate. In a classification system, the assessment fraction (ratio) for the class must be multiplied by the nominal tax rate to determine the effective tax rate. This step increases confusion and reduces understandability.

5.3.3 Abatements and Tax Increment Financing (TIF)

Careful cost-benefit analysis should be encouraged before allowing abatements or tax increment financing areas. Property tax abatements and tax increment financing systems often are used to attract businesses to economically depressed areas. Abatements may also be employed to promote residential use, to grant residential property tax relief, and to respond to appeals. Abatements typically forgive all or a portion of property taxes for a specified period of time. Tax increment financing permits a portion of the property taxes that would be generated on new development to be used by the development for expenses associated with infrastructure and improvement construction. Tax increment financing also may involve bonds that will be paid off by revenue diverted in this manner.

Both of these systems lessen the start-up costs of new, property-intensive businesses. Both systems are preferred over classification schemes and limits on assessment increases.

Abatements may ignore economic realities and may have unanticipated negative effects. For example, because the affected property will not be added to the tax rolls for several years, schools and other infrastructure needs required by the new housing associated with the jobs offered by the new business may go unmet or may inordinately increase taxes on other property. Also, if the new business closes unexpectedly, there may be additional negative impacts, especially if many new homes and satellite businesses were built to support the new business. This sort of problem can occur especially with abatements given to mining industry property because this industry is prone to rapid boom-and-bust operation cycles.

Both abatements and tax increment financing can create or add to the administrative complexity of the property tax system and can create islands of competi-

tive advantage that can further damage the tax base in already marginal situations. For example, if advantageous tax treatment were given to develop a regional shopping center on the outskirts of a depressed city, downtown retail establishments that received no favored treatment might close or move to this center. If the shopping center were not required to pay property taxes and the downtown businesses no longer paid any, the net loss of revenue might be greater than anticipated.

Abatements and tax increment financing tend to pit cities, counties, and even states against each other in a competition to see which area can offer the most lucrative package of tax incentives. In this situation, an objective cost/benefit analysis is even more important to ensure that the outcome is beneficial to the community.

In addition to the above concerns, assessors may be required to track property values in abatement or tax increment financing areas differently than in other areas. This may require assessors to use additional computer or staffing resources.

Finally, many studies have shown that business locational decisions are only marginally related to property tax issues, with costs of labor, availability of trained workforce, and quality of life issues often taking precedence (See, for example, New York Legislative Commission on the Modernization and Simplification of Tax Administration and the Tax Law [1984].) Assessing officers should make legislators and public officials considering abatements and tax increment financing aware of all of these issues.

5.3.4 Property Tax Deferrals

Property tax deferrals are used in some jurisdictions to relieve the tax burden on lower-income households or, in some cases, all households. Deferrals delay, but do not excuse, taxes which accrue as an increasing lien until the property is sold or the estate settled. Deferred taxes are subject to interest charges, but not to penalties, and the property is not subject to forfeiture.

Annual application requirements and interest charges tend to discourage most homeowners, who actively avoid liens of any sort and refuse to take advantage of deferral programs for this reason. Furthermore, local taxing units have added revenue uncertainty and are essentially making loans to the eligible property owners unless the state takes over the loans by replacing delayed revenue. Circuit breakers accomplish much of the same protection as deferrals but are financed by state governments as credits which do not need to be repaid, thereby avoiding these difficulties.

5.3.5 Circuit Breakers

Many states provide state-funded tax credits or replacement funding for local governments through programs known as circuit breakers. The difference between circuit breaker tax relief mechanisms and other exemptions is that funds are not lost to local governments and property taxes are not shifted to other classes of property because the taxes are replaced from state funds and there is no repayment provision. However, costs of relief are shifted to other taxpayers via broad-based state taxes.

Most states restrict circuit breaker benefits to low-income elderly homeowners and renters, although a few states have more broadly applied programs. Circuit breakers provide effective relief from one of the most unpalatable aspects of the property tax, its effect on homeowners with fixed incomes. Circuit breakers are especially desirable because they target relief to an identifiable group of potentially disadvantaged taxpayers, rather than providing much more expensive and less targeted across-the-board relief to all taxpayers, whether the relief is needed or not.

To be most effective, a circuit breaker's benefits should be specified as a percent of tax. Fixed dollar credits quickly become out of date, providing inflation-eroded benefits. Frequent legislative attention or automatic cost-of-living adjustments are necessary to ensure adequate current benefits.

State administrative agencies and local assessors should promote awareness of circuit breaker programs and should provide outreach and assistance to those wishing to apply for the benefits.

5.3.6 Tax Credits

Tax credits can be an effective way of reducing the financial impact of property taxes on selected types of taxpayers without affecting the assessment process or the ability of local units of government to receive funding generated from property tax. Tax credits typically are allowed in the form of reduced income tax liability resulting from a property-tax-related expense. For example, low-income renters may be permitted to impute a property tax amount that is embedded within rent paid. This amount or some percentage of this amount may then be refundable or deductible through an income tax credit.

Property tax credits generally are most efficient and feasible when administered through a state or local income tax program. Refundable credits are more cumbersome to administer, because they require money to be sent to individuals. However, refundable

credits have the advantage of providing the full amount of the intended credit, whereas deductions or non-refundable credits only work to the extent that offsetting income or tax liability exists.

5.4 Controls on the Overall Property Tax System

Aside from controls that shift the property tax between classes of property or to broad-based state taxes (as in the case of the circuit breaker), overall controls have a place in every property tax system. Overall controls include budget increase limits, levy rate limits, and valuation increase limits.

5.4.1 Budget Increase Limits

Regardless of whether a property tax system is budget- or rate-driven (see section 5.2.1), it may be desirable to provide an upper limit to the amount any local unit of government can increase the revenue it derives from property tax in any year. Such a system typically imposes a maximum percent increase and usually spells out parts of the taxing district budget that may be exempt from the limitation. Elective override provisions may be available, and there is usually some allowance to enable additional amounts to provide services for new construction or growth.

Budget increase limits can prevent reappraisal windfalls. However, truth-in-taxation provisions (see section 5.2.2) can do the same without necessitating a one-shoe-fits-all approach. Two fallacies plague budget increase limits. The cap may be generous for some units of government but may prevent others from adequately providing expected services. Second, ceilings often become floors. In other words, taxing units of government may be concerned about unanticipated future expenses and may feel obliged to set the maximum possible budget, even though it may not be needed.

5.4.2 Levy Rate Limits

Levy rate limits usually limit the maximum levy rate that can be charged per dollar or per thousand dollars of assessed value. When assessments are stable or increase slowly over time, levy rate limits tend to provide adequate control over the property tax system. Levy rate limits should be established by unit of government and not as an overall limit on the rate that can be charged to any given property. If a system of overall rate limits is imposed, flexible and independent operation of local taxing units of government is all but lost.

Levy rate limits fail to control property taxes when appraised values rise rapidly due to reappraisal or inflation. Under these conditions, such limits often produce revenue windfalls and foster taxpayer discontent. Because the rate has not changed, taxpayers tend to blame the assessor for the tax increase. Levy rate limits, therefore, have a place as part of a control system but should be coupled with budget or truth-in-taxation constraints.

5.4.3 Valuation Increase Limits

Limits that constrain changes in assessed or appraised value of property may appear to provide control but actually distort the distribution of the property tax, destroying property tax equity and increasing public confusion and administrative complexity. Owners whose properties are increasing in value more rapidly than the permitted rate of increase (say, 5 percent) receive a windfall at the expense of those whose properties are decreasing in value or are increasing at lower rates. In effect, valuation increase limits result in lower effective property tax rates for owners of desirable property and higher effective property tax rates for owners of less desirable property. Similarly, when state funds are distributed to school districts or other taxing jurisdictions based on taxable property value (indirect equalization), funding will tend to shift from poorer areas to wealthier areas with rapid appreciation—an illogical and undesirable result. Legislators and the public should be made aware of the inequities resulting from valuation increase limits and be actively discouraged from pursuing such limitations. Any other control is preferable.

5.5 Analytical Resources

Whenever resources permit, local assessors and (more commonly) state assessment administrative agencies should maintain tax research staff to provide objective information to the public and to the executive and legislative branches concerning the property tax system in place and the effects of any proposed system changes. A department of this type should provide ongoing or annually updated analysis of issues that tend to be of continuing importance. Tax analysis should be included as a task for research staff, who should be supported with adequate computer systems and data entry personnel.

In addition to analytical studies of issues and proposals, resources in this area should be employed in reviewing proposed legislation at an early stage and providing input as to effects. It may also be useful to

enlist analytical staff in reviewing legislative language to determine if a proposal will function as intended. Assistance from trained legal staff will be necessary to accomplish this task properly.

6. Public Relations

State and local assessing officials should consider public relations to be an inherent role of considerable importance. Public relations helps demonstrate that the assessing officer understands the factors influencing value in the community. It also enables the assessing officer to explain and clarify the property tax and helps taxpayers understand whether they are being treated in a fair and equitable manner. Through effective public relations, the property tax becomes more visible, and misunderstandings that may lead to unwarranted appeals and misguided complaints may be prevented. The assessing officer can build trust and confidence in both valuation and taxation systems and can demonstrate willingness to work toward reform in areas perceived to be inequitable. (See section 4.7 and *Standard on Public Relations* [IAAO 2001b].)

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Glossary

Abatement. (1) An official reduction or elimination of one's assessed valuation after completion of the original assessment. (2) An official reduction or elimination of one's tax liability after completion of the assessment roll.

Acquisition Value. The market value of property at the time it was acquired by the present owner or of the last major physical change.

Appeal. A process in which a property owner contests an assessment either informally or formally.

Assessment, acquisition-value-based. A system of valuing property at its market value as of the last transfer of ownership or of the last major physical change. A property is placed on the tax roll at its acquisition value. Values usually are permitted only limited annual increases but may be updated when major physical changes occur or when the property is sold. The system established by California's Proposition 13 is an example. See also welcome stranger assessment.

Assessment Level. The common or overall ratio of assessed values to market values.

Assessment Progressivity (Regressivity). An appraisal bias such that high-value properties are appraised higher (or lower) than low-value properties in relation to market values.

Assessment Ratio. (1) The fractional relationship an assessed value bears to the market value of the property in question. (2) By extension, the fractional relationship the total of the assessment roll bears to the total market value of all taxable property in a jurisdiction.

Audit. A systematic investigation or appraisal of procedures or operations for the purpose of determining conformity with specifically prescribed criteria.

Audit, Performance. An analysis of an organization to determine whether or not the quantity and quality of work performed meets standards. Ratio studies are an important part of performance audits of an assessing organization.

Audit, Procedural. An examination of an organization to determine whether established or recommended procedures are being followed.

Circuit Breaker. For qualifying property owners, a credit or rebate of specified amounts of property taxes incurred, whenever such taxes exceed specified percentages or amounts of household income. In instances where renters are included, rent or rent equivalents substitute for property taxes.

Classification. The act of segregating property into two or more classes for the application of different effective tax rates by means of one or more special property taxes or a classified property tax system.

Coefficient of Dispersion. The average deviation of a group of numbers from the median expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.

Credit, Property Tax. An offset against the property tax payment or another tax payment for taxpayers who meet certain criteria (for example, renters), or whose properties have certain characteristics or are used for specified purposes (for example, pollution abatement); a direct reduction in a tax payment rather than in a tax base.

Effective Tax Rate. (1) The tax rate expressed as a percentage of market value; will be different from the nominal (or stated) tax rate when the assessment ratio is not equal to 1. (2) The relationship between dollars of tax and dollars of market value of a property. The rate may be calculated either by dividing tax by value or by multiplying a property's assessment level by its nominal tax rate.

Elasticity (tax). A measure of the responsiveness of tax yields to changes in economic conditions. The yield of an elastic tax increases rapidly in a growing economy. The yield of an inelastic tax increases slowly. Often measured by the formula:

$$\frac{\text{Percentage change in tax}}{\text{Percentage change in personal income}}$$

Equalization. The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is assessed at the same assessment ratio or at the ratio or ratios required by law. Equalization may be undertaken at many different levels. Equalization among use types (such as agricultural and industrial property) may be undertaken at the local level, as may equalization among properties in a school district and a transportation district. Equalization among counties is usually undertaken by the state to ensure that its aid payments are distributed fairly.

Equity. (1) In assessment, the degree to which assessments bear a consistent relationship to market value. Measures include the coefficient of dispersion, coefficient of variation, and price-related differential. (2) In popular usage, a synonym for tax fairness. (3) In ownership, the net value of property after liens and other charges have been subtracted.

Exemption, Homestead. Freedom from property taxation of all or part of the value of a homestead; a reduction in the property tax base.

Fairness. See *equity*.

Fractional Assessments. Assessments that by law or by practice have assessment ratios different from 1. Usually the assessment ratio is less than 1 and, if assessment biases are present, different classes of property may have different fractional ratios. Fractional assessments are often condemned as offering a way to obscure assessment biases.

Levy, Property Tax. (1) The total amount of money to be raised from the property tax as set forth in the budget of a taxing jurisdiction. (2) Loosely, by extension, the millage rate or the property tax bill sent to an individual property owner.

Market Value. Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States is:

The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the

buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

The buyer and seller are typically motivated;

Both parties are well informed or well advised, and acting in what they consider their best interests;

A reasonable time is allowed for exposure in the open market;

Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and

The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Millage, Mill Rate. A tax rate expressed as mills per dollar. For example, a 2 percent tax rate is \$2 per \$100, \$20 per \$1,000, or 20 mills per dollar. One mill is one-thousandth of one dollar or one-tenth of one cent.

Nominal Tax Rate. The property tax rate expressed as mills per dollar of assessed value or as a percentage of assessed value. In a classified property valuation system, the nominal rate can be converted to an effective tax rate by multiplying by the appropriate fractional rate of assessment (assessed value as a percent of appraised value).

Own-Source Revenue. Government funding that only comes from within the jurisdiction under consideration. For local governments, this means that it excludes revenue received from federal and state intergovernmental grants; it may include taxes, current charges, and miscellaneous revenue collected by the jurisdiction. Alternatively, general revenue minus intergovernmental revenue.

Progressive tax system. A method of taxation in which those with more resources pay a greater percentage of their resources than those with less resources. Income progressivity occurs in a tax system under which a taxpayer's average tax rate increases with income. This is often the case with income taxation based on multiple rates. Assessment progressivity occurs when effective property tax rates on higher-value properties are greater than effective property tax rates on lower-value properties.

Rate-driven Levy. The property tax rate to be applied is specified in the budget or tax levy ordinance of a taxing jurisdiction, as opposed to the situation in

which the total revenue to be raised is specified and the rate is calculated.

Ratio Study. A study of the relationship between appraised or assessed values and market values. Indicators of market values may be either sales or independent expert appraisals. Of common interest in ratio studies are the level and uniformity of the appraisals or assessments.

Regressive tax system. A method of taxation in which those with less resources pay a higher percentage of their resources than those with more resources. Income regressivity occurs when people with lower incomes pay a higher percentage of their incomes in taxes than people with higher incomes. This often occurs in sales tax systems where the tax is applied to groceries and other necessities. Assessment regressivity occurs when assessment levels or effective property tax rates on lower-value properties are greater than assessment levels or effective property tax rates on higher-value properties.

Sunset Provision. A provision within a statute creating a law or agency which provides for its automatic termination at a fixed date in the future.

Tax Burden. Economic costs or losses resulting from the imposition of a tax. Burden can be determined only by detailed economic analysis of all economic changes resulting from the tax. In popular usage, the term often refers to the initial incidence rather than ultimate economic costs.

Tax Incidence. The distribution of a tax on natural persons who bear the tax after the completion of the process of tax shifting, to be distinguished in particular from the distribution of the tax on the persons, natural or legal, who pay it in the first instance.

Tax Incidence Analysis. Economic analysis that compares the way different taxes affect the distribution of income. It requires analysis of the impact of taxes on the market for the taxed item and the market for all factors (land, labor, and capital) used in producing the taxed item.

Tax Increment Financing (TIF). The idea that property taxes, or other revenue, resulting from an increase in a tax base (for example, property values or retail sales) in a specific area can be used to repay the costs of investment in that area. Funds may be invested in various programs, such as public infrastructure improvements or land writedown subsidies to private investors.

Tax Policy Analysis. The process of gathering and interpreting economic data to provide information that

can be used by policymakers to formulate tax policy.

Truth-in-Taxation (Full Disclosure) Requirements. Legal obligations for local government officials to make taxpayers aware of assessment increases, levy increase proposals, and the like and to give taxpayers an opportunity to participate in public hearings on the changes.

Wealth. Valuable material objects which are owned, either individually or collectively, that is, all tangible property. Note: In popular usage the term wealth is synonymous with property and, as such, embraces intangibles as well as tangible property. This usage is considered incorrect by economists and is not recommended. Intangible property, with the possible exception of goodwill, patents, and the like, is not a real source of income but only a means of distributing income derived from the two primary sources: tangible property and persons. The adding together of tangible property and intangibles to determine total wealth results in multiple counting of the same values. Some authorities consider nonrepresentative intangible property as wealth, but this usage has received only limited acceptance.

Welcome Stranger Assessment. The practice of systematically assessing recently sold properties on the basis of their sales prices while failing to reassess similar properties that have not recently sold. See also assessment, acquisition-value based.

Appendices

Appendices A, B, and C are presented as examples of the measurement of tax incidence or burden. Before relying on such surveys, the reader should review their data and methods for accuracy. Appendix D discusses criteria for evaluating property tax systems.

Appendix A consists of two bar charts that represent examples of tax analysis. These bar charts break down the amount of property tax paid in one state (Idaho) by sector (category) and show the effect of inflation.

Appendix B consists of two tables that examine property tax burden in relation to income and population. All states and the District of Columbia are compared to the United States average, which is represented mathematically by a tax effort of 100 percent. Under- or overutilized tax potential represents the difference between the amount of tax per dollar of income versus the amount of tax that would be raised by the United States average rate, if applied to the income in a particular state (tax capacity). Tax effort is the percentage of tax capacity represented by actual tax revenue in each state. A state with a tax effort of 100 percent

would be one in which the effective tax rate equals the United States average. Table 1 shows tax capacity and effort in comparison to income and table 2 shows these measurements in comparison to population (per capita). Data for these tables is made available by the U.S. Census Bureau and can be found at: <http://www.census.gov>. Fiscal year 2002 data was the most current available at the time revisions to this standard were finalized.

Appendix C is taken from table 1 found in the 2002 version of *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, an annually updated study produced by the District of Columbia Department of Finance and Revenue. Table 1 indicates the estimated burden of all major taxes on a family of four earning \$50,000. Similar tables are available for families earning various other amounts. Other tables in this study examine progressivity of state and local tax structures. The District of Columbia study can be found at http://www.cfo.washingtondc.gov/cfo/LIB/cfo/services/studies/tax_burden_nation_2002.pdf.

Appendix A

Figure 1. Property Taxes by Major Category of Property in Current Dollar

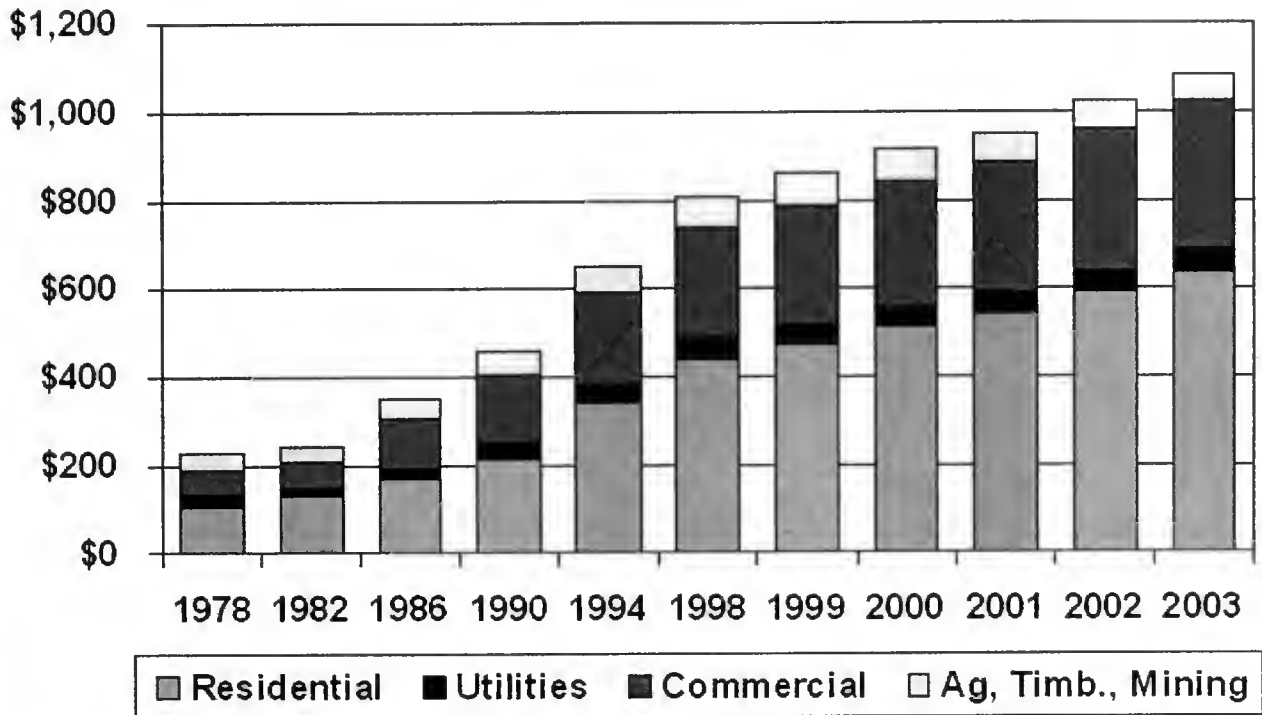
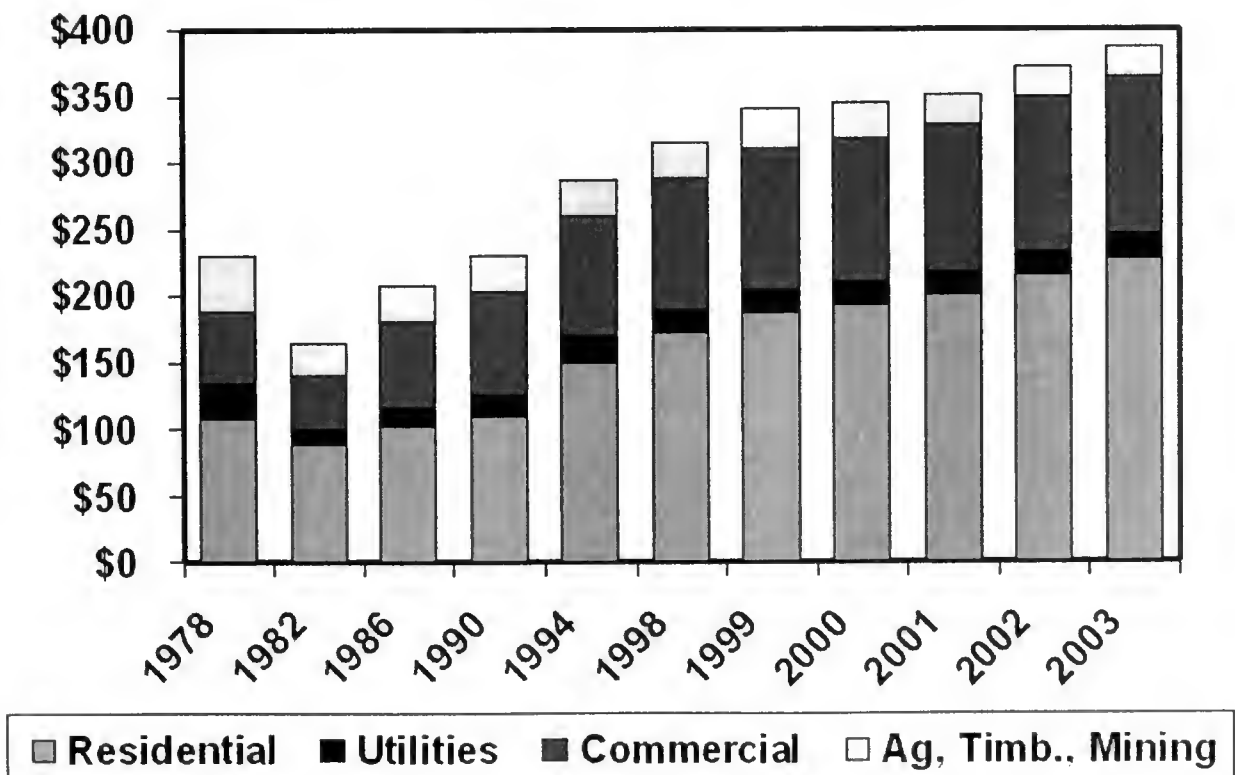


Figure 2. Adjusted Property Taxes by Major Category of Property in Constant 1978 Dollars



Appendix B

Table 1. FY 2002 Property Tax Burden—Based on Total Personal Income

| State | Personal Income FY 2002 \$ Million | State & Local FY-02 Property Tax Revenue \$ Million | Tax Capacity* Potent. Tax Coll. (\$ M.) (Ave. Rate X Pers. Inc.) | Underutil. Potential*: (Overutil.) \$ Million (C4-C3) | Ave Actual Tax Rate: Col. 3+ Col. 2 (% of Inc.) | Tax Effort: % of Tax Capacity* Utilized (C3+C4) | Rank: Based on Tax Effort* |
|----------------|--|---|--|---|---|---|----------------------------------|
| United States | 8,793,628 | 279,112.0 | | | 3.17% | | |
| Alabama | 112,723 | 1,473.6 | 3,577.9 | 2,104.3 | 1.31% | 41.2% | 51 |
| Alaska | 20,593 | 830.0 | 653.6 | (176.4) | 4.03% | 127.0% | 8 |
| Arizona | 140,813 | 4,254.4 | 4,469.4 | 215.1 | 3.02% | 95.2% | 27 |
| Arkansas | 62,915 | 1,002.6 | 1,996.9 | 994.4 | 1.59% | 50.2% | 49 |
| California | 1,141,410 | 30,234.1 | 36,228.6 | 5,994.5 | 2.65% | 83.5% | 36 |
| Colorado | 150,845 | 4,162.2 | 4,787.8 | 625.7 | 2.76% | 86.9% | 34 |
| Connecticut | 146,083 | 5,995.5 | 4,636.7 | (1,358.8) | 4.10% | 129.3% | 7 |
| Delaware | 25,564 | 399.9 | 811.4 | 411.5 | 1.56% | 49.3% | 50 |
| Dist. of Col. | 26,330 | 803.4 | 835.7 | 32.3 | 3.05% | 96.1% | 26 |
| Florida | 487,157 | 15,754.2 | 15,462.5 | (291.7) | 3.23% | 101.9% | 22 |
| Georgia | 243,363 | 6,640.0 | 7,724.4 | 1,084.4 | 2.73% | 86.0% | 35 |
| Hawaii | 36,099 | 614.9 | 1,145.8 | 530.8 | 1.70% | 53.7% | 46 |
| Idaho | 33,527 | 958.8 | 1,064.1 | 105.4 | 2.86% | 90.1% | 31 |
| Illinois | 412,917 | 15,872.7 | 13,106.1 | (2,766.6) | 3.84% | 121.1% | 12 |
| Indiana | 170,237 | 5,976.2 | 5,403.3 | (572.9) | 3.51% | 110.6% | 15 |
| Iowa | 81,254 | 2,877.9 | 2,579.0 | (298.9) | 3.54% | 111.6% | 14 |
| Kansas | 77,753 | 2,524.9 | 2,467.9 | (57.0) | 3.25% | 102.3% | 20 |
| Kentucky | 102,827 | 1,977.0 | 3,263.7 | 1,286.7 | 1.92% | 60.6% | 44 |
| Louisiana | 111,545 | 1,940.4 | 3,540.5 | 1,600.0 | 1.74% | 54.8% | 45 |
| Maine | 35,581 | 1,912.2 | 1,129.3 | (782.8) | 5.37% | 169.3% | 1 |
| Maryland | 194,392 | 5,412.2 | 6,170.0 | 757.8 | 2.78% | 87.7% | 33 |
| Massachusetts | 249,631 | 8,721.8 | 7,923.4 | (798.5) | 3.49% | 110.1% | 17 |
| Michigan | 296,521 | 9,793.4 | 9,411.7 | (381.8) | 3.30% | 104.1% | 18 |
| Minnesota | 164,754 | 5,214.7 | 5,229.3 | 14.6 | 3.17% | 99.7% | 24 |
| Mississippi | 63,683 | 1,646.6 | 2,021.3 | 374.7 | 2.59% | 81.5% | 38 |
| Missouri | 159,534 | 3,880.3 | 5,063.6 | 1,183.3 | 2.43% | 76.6% | 40 |
| Montana | 22,227 | 852.4 | 705.5 | (146.9) | 3.83% | 120.8% | 13 |
| Nebraska | 49,844 | 1,748.8 | 1,582.1 | (166.8) | 3.51% | 110.5% | 16 |
| Nevada | 64,753 | 1,702.2 | 2,055.3 | 353.1 | 2.63% | 82.8% | 37 |
| New Hampshire | 42,852 | 2,169.5 | 1,360.1 | (809.4) | 5.06% | 159.5% | 2 |
| New Jersey | 335,838 | 16,049.6 | 10,659.6 | (5,390.0) | 4.78% | 150.6% | 3 |
| New Mexico | 45,054 | 755.9 | 1,430.0 | 674.1 | 1.68% | 52.9% | 47 |
| New York | 683,121 | 26,825.7 | 21,682.4 | (5,143.3) | 3.93% | 123.7% | 11 |
| North Carolina | 227,909 | 5,421.7 | 7,233.9 | 1,812.1 | 2.38% | 74.9% | 41 |
| North Dakota | 16,727 | 532.3 | 530.9 | (1.4) | 3.18% | 100.3% | 23 |
| Ohio | 328,865 | 10,643.4 | 10,438.3 | (205.2) | 3.24% | 102.0% | 21 |
| Oklahoma | 89,460 | 1,482.1 | 2,839.5 | 1,357.4 | 1.66% | 52.2% | 48 |
| Oregon | 100,005 | 3,138.9 | 3,174.2 | 35.3 | 3.14% | 98.9% | 25 |
| Pennsylvania | 378,224 | 10,910.8 | 12,004.9 | 1,094.2 | 2.88% | 90.9% | 30 |
| Rhode Island | 32,389 | 1,462.1 | 1,028.0 | (434.0) | 4.51% | 142.2% | 6 |
| South Carolina | 103,232 | 3,096.4 | 3,276.6 | 180.2 | 3.00% | 94.5% | 28 |
| South Dakota | 20,393 | 668.0 | 647.3 | (20.8) | 3.28% | 103.2% | 19 |
| Tennessee | 157,248 | 3,453.0 | 4,991.1 | 1,538.1 | 2.20% | 69.2% | 42 |
| Texas | 623,769 | 24,521.0 | 19,798.6 | (4,722.4) | 3.93% | 123.9% | 10 |
| Utah | 56,497 | 1,419.8 | 1,793.2 | 373.5 | 2.51% | 79.2% | 39 |
| Vermont | 18,026 | 823.6 | 572.1 | (251.5) | 4.57% | 144.0% | 4 |
| Virginia | 235,573 | 6,710.6 | 7,477.2 | 766.6 | 2.85% | 89.7% | 32 |
| Washington | 195,203 | 5,790.6 | 6,195.8 | 405.2 | 2.97% | 93.5% | 29 |
| West Virginia | 42,357 | 901.0 | 1,344.4 | 443.4 | 2.13% | 67.0% | 43 |
| Wisconsin | 160,789 | 6,466.2 | 5,103.5 | (1,362.7) | 4.02% | 126.7% | 9 |
| Wyoming | 15,224 | 692.3 | 483.2 | (209.1) | 4.55% | 143.3% | 5 |

Appendix B

Table 2. FY 2002 Per Capita Property Tax Burden

| State | July 1, 2002 Population in Millions | Property Tax Revenue \$ Million | Per Capita Tax Capacity* (\$) | Tax Effort*: Per Capita Tax Capacity* Index | Rank: Based on Tax Effort* |
|----------------|--|--|--|--|-------------------------------------|
| United States | 287.974 | 279,112.0 | | | |
| Alabama | 4.479 | 1,473.6 | 4,341.06 | 33.9% | 51 |
| Alaska | 0.641 | 830.0 | 621.74 | 133.5% | 11 |
| Arizona | 5.441 | 4,254.4 | 5,273.68 | 80.7% | 34 |
| Arkansas | 2.706 | 1,002.6 | 2,622.99 | 38.2% | 50 |
| California | 35.002 | 30,234.1 | 33,924.85 | 89.1% | 31 |
| Colorado | 4.501 | 4,162.2 | 4,362.54 | 95.4% | 26 |
| Connecticut | 3.459 | 5,995.5 | 3,352.15 | 178.9% | 2 |
| Delaware | 0.806 | 399.9 | 781.14 | 51.2% | 44 |
| Dist. of Col. | 0.569 | 803.4 | 551.64 | 145.6% | 5 |
| Florida | 16.692 | 15,754.2 | 16,178.04 | 97.4% | 22 |
| Georgia | 8.544 | 6,640.0 | 8,281.08 | 80.2% | 35 |
| Hawaii | 1.241 | 614.9 | 1,202.48 | 51.1% | 45 |
| Idaho | 1.343 | 958.8 | 1,301.79 | 73.6% | 37 |
| Illinois | 12.586 | 15,872.7 | 12,199.12 | 130.1% | 12 |
| Indiana | 6.157 | 5,976.2 | 5,967.44 | 100.1% | 20 |
| Iowa | 2.936 | 2,877.9 | 2,845.49 | 101.1% | 18 |
| Kansas | 2.712 | 2,524.9 | 2,628.32 | 96.1% | 25 |
| Kentucky | 4.090 | 1,977.0 | 3,963.96 | 49.9% | 46 |
| Louisiana | 4.476 | 1,940.4 | 4,338.44 | 44.7% | 47 |
| Maine | 1.295 | 1,912.2 | 1,255.05 | 152.4% | 4 |
| Maryland | 5.451 | 5,412.2 | 5,282.79 | 102.4% | 17 |
| Massachusetts | 6.422 | 8,721.8 | 6,224.18 | 140.1% | 9 |
| Michigan | 10.043 | 9,793.4 | 9,734.16 | 100.6% | 19 |
| Minnesota | 5.025 | 5,214.7 | 4,870.16 | 107.1% | 15 |
| Mississippi | 2.867 | 1,646.6 | 2,778.51 | 59.3% | 42 |
| Missouri | 5.670 | 3,880.3 | 5,495.07 | 70.6% | 38 |
| Montana | 0.910 | 852.4 | 882.36 | 96.6% | 23 |
| Nebraska | 1.728 | 1,748.8 | 1,674.40 | 104.4% | 16 |
| Nevada | 2.167 | 1,702.2 | 2,100.75 | 81.0% | 33 |
| New Hampshire | 1.274 | 2,169.5 | 1,235.19 | 175.6% | 3 |
| New Jersey | 8.575 | 16,049.6 | 8,311.36 | 193.1% | 1 |
| New Mexico | 1.852 | 755.9 | 1,795.05 | 42.1% | 49 |
| New York | 19.134 | 26,825.7 | 18,545.46 | 144.6% | 6 |
| North Carolina | 8.306 | 5,421.7 | 8,050.22 | 67.3% | 39 |
| North Dakota | 0.634 | 532.3 | 614.40 | 86.6% | 32 |
| Ohio | 11.409 | 10,643.4 | 11,057.61 | 96.3% | 24 |
| Oklahoma | 3.490 | 1,482.1 | 3,382.31 | 43.8% | 48 |
| Oregon | 3.520 | 3,138.9 | 3,412.02 | 92.0% | 28 |
| Pennsylvania | 12.329 | 10,910.8 | 11,949.43 | 91.3% | 29 |
| Rhode Island | 1.068 | 1,462.1 | 1,035.45 | 141.2% | 8 |
| South Carolina | 4.104 | 3,096.4 | 3,977.48 | 77.8% | 36 |
| South Dakota | 0.760 | 668.0 | 737.04 | 90.6% | 30 |
| Tennessee | 5.790 | 3,453.0 | 5,611.62 | 61.5% | 41 |
| Texas | 21.737 | 24,521.0 | 21,068.00 | 116.4% | 14 |
| Utah | 2.319 | 1,419.8 | 2,247.43 | 63.2% | 40 |
| Vermont | 0.616 | 823.6 | 597.44 | 137.9% | 10 |
| Virginia | 7.288 | 6,710.6 | 7,063.56 | 95.0% | 27 |
| Washington | 6.067 | 5,790.6 | 5,880.36 | 98.5% | 21 |
| West Virginia | 1.805 | 901.0 | 1,749.34 | 51.5% | 43 |
| Wisconsin | 5.440 | 6,466.2 | 5,272.29 | 122.6% | 13 |
| Wyoming | 0.499 | 692.3 | 483.48 | 143.2% | 7 |

***Definitions**

Tax Capacity. The tax capacity of a state is the amount of tax that would be raised if the national average tax rate, computed in comparison to income or population, were applied to the income or population in that state.

Tax Effort. Tax effort is the percent of a state's tax capacity that is actually used. It is determined by dividing the actual tax collections for the state by that state's tax capacity. It is expressed as an index, standardized around the number 100, so a tax effort of 100 indicates that a state's effective tax rate (computed on either an income or population basis) equals the U.S. average. Tax efforts that exceed 100 indicate that a state's effective tax rate exceeds the U.S. average.

Underutilized Potential. A state's potential tax collections are determined by calculating the amount of tax that would be raised in that state using the national average tax rate (tax capacity). If a state's actual tax collections are less than this amount, the state is said to be under-utilizing potential taxes. If a state's actual tax collections exceed the amount calculated using the national average rate, the state is said to be over-utilizing potential taxes. The difference between the state's potential and actual tax collections equals the amount of under or over-utilized potential.

Appendix C

Table 1. Estimated Burden of Major Taxes for a Family of Four, FY 2002 \$50,000

| Rank | City | St | Taxes | | | | Burden | |
|---------|----------------|----|---------|----------|-------|-------|---------|---------|
| | | | Income | Property | Sales | Auto | Amount | Percent |
| 1 | Bridgeport | CT | 316 | 5,737 | 766 | 570 | 7,389 | 14.80% |
| 2 | Newark | NJ | 603 | 5,705 | 618 | 142 | 7,069 | 14.10% |
| 3 | Philadelphia | PA | 3,630 | 2,131 | 614 | 206 | 6,581 | 13.20% |
| 4 | Baltimore | MD | 2,391 | 2,270 | 766 | 188 | 5,615 | 11.20% |
| 5 | New York City | NY | 2,517 | 2,074 | 733 | 75 | 5,400 | 10.80% |
| 6 | Providence | RI | 1,038 | 2,876 | 701 | 606 | 5,221 | 10.40% |
| 7 | Milwaukee | WI | 1,624 | 2,608 | 734 | 223 | 5,189 | 10.40% |
| 8 | Atlanta | GA | 1,501 | 2,521 | 870 | 245 | 5,137 | 10.30% |
| 9 | Portland | OR | 2,657 | 2,247 | 0 | 191 | 5,095 | 10.20% |
| 10 | Louisville | KY | 3,081 | 1,034 | 698 | 253 | 5,066 | 10.10% |
| 11 | Chicago | IL | 1,147 | 2,268 | 1,009 | 310 | 4,734 | 9.50% |
| 12 | Portland | ME | 1,512 | 2,356 | 592 | 213 | 4,674 | 9.30% |
| 13 | Detroit | MI | 2,093 | 1,685 | 671 | 207 | 4,656 | 9.30% |
| 14 | WASHINGTON | DC | 2,316 | 1,342 | 754 | 218 | 4,631 | 9.30% |
| 15 | Columbus | OH | 2,279 | 1,441 | 638 | 187 | 4,544 | 9.10% |
| 16 | Salt Lake City | UT | 2,048 | 1,338 | 894 | 264 | 4,544 | 9.10% |
| 17 | Burlington | VT | 1,031 | 2,741 | 593 | 174 | 4,539 | 9.10% |
| 18 | Des Moines | IA | 1,699 | 1,771 | 747 | 308 | 4,525 | 9.10% |
| 19 | Boston | MA | 1,993 | 1,901 | 386 | 216 | 4,496 | 9.00% |
| 20 | Charlotte | NC | 1,965 | 1,454 | 782 | 256 | 4,457 | 8.90% |
| 21 | Los Angeles | CA | 320 | 2,907 | 787 | 340 | 4,354 | 8.70% |
| 22 | Kansas City | MO | 2,020 | 1,044 | 868 | 343 | 4,275 | 8.60% |
| 23 | Birmingham | AL | 2,338 | 650 | 1,051 | 235 | 4,274 | 8.50% |
| 24 | Minneapolis | MN | 1,661 | 1,639 | 695 | 253 | 4,249 | 8.50% |
| 25 | Little Rock | AR | 1,651 | 1,299 | 952 | 298 | 4,200 | 8.40% |
| 26 | Omaha | NE | 1,228 | 1,798 | 872 | 253 | 4,152 | 8.30% |
| 27 | Oklahoma City | OK | 1,912 | 981 | 1,045 | 191 | 4,129 | 8.30% |
| 28 | Columbia | SC | 1,652 | 1,409 | 645 | 410 | 4,116 | 8.20% |
| 29 | Honolulu | HI | 2,031 | 1,107 | 582 | 279 | 3,999 | 8.00% |
| 30 | Virginia Beach | VA | 1,796 | 1,279 | 617 | 266 | 3,958 | 7.90% |
| 31 | Jackson | MS | 1,087 | 1,213 | 947 | 587 | 3,834 | 7.70% |
| 32 | Phoenix | AZ | 866 | 1,705 | 1,101 | 147 | 3,820 | 7.60% |
| 33 | Indianapolis | IN | 1,892 | 1,206 | 579 | 110 | 3,786 | 7.60% |
| 34 | Albuquerque | NM | 1,095 | 1,530 | 943 | 153 | 3,721 | 7.40% |
| 35 | New Orleans | LA | 1,275 | 1,020 | 1,073 | 210 | 3,578 | 7.20% |
| 36 | Boise | ID | 1,573 | 1,133 | 637 | 234 | 3,576 | 7.20% |
| 37 | Wilmington | DE | 1,852 | 1,525 | 0 | 170 | 3,547 | 7.10% |
| 38 | Charleston | WV | 1,697 | 786 | 760 | 294 | 3,538 | 7.10% |
| 39 | Fargo | ND | 626 | 1,955 | 681 | 206 | 3,468 | 6.90% |
| 40 | Seattle | WA | 0 | 2,118 | 1,058 | 180 | 3,355 | 6.70% |
| 41 | Denver | CO | 1,322 | 968 | 828 | 229 | 3,347 | 6.70% |
| 42 | Wichita | KS | 1,327 | 785 | 814 | 349 | 3,275 | 6.50% |
| 43 | Manchester | NH | 0 | 2,721 | 326 | 177 | 3,224 | 6.40% |
| 44 | Memphis | TN | 0 | 1,691 | 1,168 | 203 | 3,063 | 6.10% |
| 45 | Billings | MT | 1,526 | 1,218 | 0 | 282 | 3,025 | 6.10% |
| 46 | Houston | TX | 0 | 1,823 | 1,006 | 190 | 3,020 | 6.00% |
| 47 | Sioux Falls | SD | 0 | 1,529 | 938 | 173 | 2,640 | 5.30% |
| 48 | Las Vegas | NV | 0 | 1,548 | 684 | 363 | 2,595 | 5.20% |
| 49 | Jacksonville | FL | 0 | 1,331 | 772 | 206 | 2,309 | 4.60% |
| 50 | Anchorage | AK | 0 | 2,058 | 0 | 86 | 2,144 | 4.30% |
| 51 | Cheyenne | WY | 0 | 673 | 873 | 139 | 1,685 | 3.40% |
| Average | | | \$1,595 | \$1,807 | \$802 | \$247 | \$4,153 | 8.30% |
| Median | | | \$1,526 | \$1,548 | \$754 | \$218 | \$4,152 | 8.30% |

1/ Based on cities actually levying tax.

Appendix D

Criteria for Evaluating Property Tax Systems

A property tax system does three things: it identifies and links taxable subjects (taxpayers) and objects (taxable property), it produces tax assessments, and it collects taxes. If any of these is done poorly, tax equity will suffer, revenue generation also may suffer, and public acceptance will erode. A tax system may be thought of as comprising policies, procedures, data, technology, and people. The time dimension is important as well. From another perspective, the system consists of an administrative or internal control component, an assessment component, and a collection component. The administrative component controls the other two. The assessment component determines who is to pay a tax and the size of each taxpayer's share of total taxes. The valuation system and the administration of exemptions and relief measures are parts of the assessment component. The collection component receives tax payments, accounts for them, and deposits receipts in the appropriate treasury.

A number of criteria have been used to evaluate taxes. These criteria fall into administrative, social justice, economic, and political categories. Some criteria are complementary; others are mutually exclusive. In the final analysis, most are based on common sense. Notions of fairness, equity, and uniformity predominate. The criteria used as a rationale for, or to criticize, the property tax include:

Uniformity. Uniformity implies proportional taxation, often in relation to ability to pay. As succinctly as anyone, the art critic Bernard Berenson expressed the wisdom of uniformity in taxation: Governments last as long as the undertaxed can defend themselves against the overtaxed. Governments wishing to maintain popular support must concede the desirability of uniform taxation (1952).

Adhering to a policy of uniformity has several requirements. First, a definition of uniformity is needed. By definition, an ad valorem tax is proportional to value. Property tax laws address uniformity in two ways: (1) tax rates and (2) assessment ratios (the percentage assessed values are of appraised values). Both must be uniform to achieve uniform effective tax rates (a property's effective tax rate is the property taxes assessed against it divided by its value). In addition, actual assessment ratios must approximate legal ratios. Achieving this requires accurate, or at least uniform, valuations.

Second, responsibilities for departures from uniformity must be clearly assigned. That is, taxpayers must be

able to distinguish between, on the one hand, differentials in tax burdens caused by differential tax rates, assessment ratios, exemptions, limits on changes in assessments, and the like and, on the other hand, differentials caused by nonuniform valuations. This also is a transparency requirement.

Third, there must be a clear standard of value. Current market value provides the fairest, most objective basis for an ad valorem tax. Revenue needs may change annually. So may property values. Some properties will increase in value while others decline. A uniform relationship between property value and property taxes can be maintained only if current market value is the basis of assessments.

Last, the things to be valued (and taxed) must be clearly defined in legislation. All taxable property in a tax district must be discovered and accurately described.

A policy of uniformity also can have a buoyancy benefit. When effective tax rates are uniform, governments can more easily identify a publicly acceptable rate of tax. When effective tax rates are not uniform, which occurs when valuations are out of date, governments take their rate-setting cues from relatively over-valued taxpayers. As a result, they decide upon a general rate of tax that is lower than the rate the under-valued would accept. Consequently, less revenue can be raised than when valuations are uniform.

Neutrality. A common economic objective is neutrality, which has to do with designing the property tax so that it does not distort economic decisions. A uniform, broad-based tax is likely to be neutral. Neutrality improves economic efficiency. An efficient tax encourages an optimal mix of the factors of production (labor, capital, management, and land), which according to economic theory increases general welfare. High taxes on one factor of production tend to shift investment toward others with lower taxes. However, one must distinguish the initial impact of a tax from its ultimate incidence. For example, a tax levied on the owners of apartment buildings might be passed along to tenants in the form of higher rents. Such shifting might be part of the rationale for some forms of discriminatory taxation; businesses, in effect, are viewed as tax collectors.

Harmony with Social and Economic Policies. Property taxes often are made deliberately non-neutral in order to further some social or economic policy. The list of possible objectives is endless. Common objectives

include making housing more affordable (particularly for families with limited income); encouraging good works by nonprofit organizations; encouraging economic development; preserving farmland, forests, open space, wetlands, and historic buildings; protecting the environment; and expressing gratitude for military service in times of war.

Public Acceptance. Public acceptance will be the cumulative effect of many things, including level of tax, ease of payment, benefits received, openness, and perceived fairness. A genuine commitment to public service and a successful public education program can build public acceptance.

Business and Investment Climate. The rationale for equitable taxation of business property is the need to provide a level playing field: overtaxed properties are at a competitive disadvantage. However, tax incentives, although deliberate departures from the uniformity principle, are sometimes used to subsidize particular industries or to attract business and investment.

Openness or Transparency. Transparency is achieved when the system is understandable. Simplicity improves transparency. Transparency also goes hand in hand with openness. In an open system, taxpayers can easily obtain information, ask questions, lodge appeals, and make payments. Transparency improves accountability and is a characteristic of democratic government. The concept also can be applied to property markets. Open markets function better.

Cost-effectiveness. Conceptually, a cost-effective property tax system is one in which virtually all taxable property is discovered, valuation and other assessment errors are minimized, tax collections approach 100 percent of the total amount due, and the costs of administration (including taxpayers' compliance costs) are minimized. In practice, it is difficult to express all effectiveness measures in monetary terms, and each criterion must be evaluated separately. As illustrated in *Improving Real Property Assessment: A Reference Manual* (IAAO 1978, section 2.3), the notion of cost-effectiveness embodies the economic concepts of marginal utility and diminishing returns. That is, a certain level of expenditure is needed before any measure of effectiveness can be achieved, but the optimal level of expenditure may be significantly below the level of expenditure that maximizes effectiveness. However, one can sometimes change a property tax system (for example, by installing a newer computer system) to achieve an increase in effectiveness without additional cost.

Buoyancy. The ability of tax yields to rise (and fall) with the economy and with revenue needs. Buoyancy is a characteristic of value-based property tax systems,

but assessed valuations must be updated as the underlying market values change.

A Balanced Revenue System. Public finance scholars usually advocate a balanced revenue system. That is, the system should include several taxes and other sources of revenue. A tax on the capital value, or current market value of immovable property, can be an important part of such a system. Such a tax has a stable and reliable base, which is attractive during economic swings. If revaluations are frequent, the base also can be buoyant during periods of economic growth or inflation. Property value can be a good measure of a taxpayer's wealth or ability to pay. Many public services provided through property taxation are thought to protect property investments and, indeed, may increase property value.

Dedicated Source of Revenue, Local Government Autonomy, and Accountability. This issue is related to balancing the revenue system in that property taxes frequently are viewed as a dedicated source of revenue for local governments. Property taxes are uniquely suited to this purpose for several reasons. The immovability of the tax base makes clear which government is entitled to the tax revenue. Local government services often are provided to properties or their owners and occupants. The tax captures for local government some of the increases in the value of property that are partially created by public expenditures. Having a dedicated source of revenue promotes local autonomy. The visibility of property taxes focuses attention on the overall quality of governance and promotes accountability. The property tax is the only tax that affords taxpayers the opportunity to review and challenge not only their assessments, but also the assessments on similar or surrounding properties.

Administrative Practicality. A tax on immovable property has the virtue of being administratively practical. In contrast with sales and income taxes, the property tax base is easily identified. The property tax is difficult to avoid. The costs of property tax administration compare favorably with the costs of administering sales and income taxes when taxpayers' compliance costs are considered.

A Valuable Fund of Land Information. Although capturing data on land and building characteristics is costly, the information collected is valuable. If up-to-date and publicly available, the information has many governmental and private uses. Satisfying private needs for land and building data can provide a source of revenue to defray part of the costs of administration.

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